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Politics this week

Aug 14th 2003
From The Economist print edition

Violence in Afghanistan

In **Afghanistan's** most violent 24 hours for months at least 60 people died in five separate incidents. Government forces killed 16 members of the Taliban in a battle in Khost province and lost five of their own men. In Uruzgan province 25 people died in fighting between forces of political rivals. At least 15 Afghans were killed when a bomb exploded in a bus near Lashkargah, in the south of the country. The bomb was believed to have gone off accidentally. In Kabul two students, said to be members of the Taliban, died when a bomb they were making blew up. In Ghazni province, two local aid workers were shot dead in an ambush.

See article: Afghanistan's future

An explosion in a coal mine in Datong in northern **China** killed 37 miners, with 5 others missing. Chinese coal mines have a bad safety record: last year more than 5,000 people died in mine accidents.

A United States military **cargo plane crashed** near Pyongtaek in South Korea. Two Americans were reported killed.

Testing the truce

AFP

Two Palestinian **suicide bombers** killed two Israelis in separate attacks in revenge, it was claimed, for Israel's killing last week of two members of Hamas, a militant Palestinian group. Israel responded by destroying the houses of the two bombers.

See article: Call this a ceasefire?

Following a shoot-out and the arrest of terrorist suspects in **Riyadh**, the Saudi capital, British Airways suspended flights to the country. Intelligence reports had warned of an attack on the airline.

See article: Saudi Arabia

Libya agreed to pay $2.7 billion to the families of those killed when an American passenger plane was blown up over the Scottish town of Lockerbie in 1988. A condition of the payment is that it should not be considered proof that Libya was responsible for the bombing.

Liberia's embattled president, **Charles Taylor**, stepped down and accepted an offer of asylum in Nigeria. African peacekeepers tried to police a shaky ceasefire between rebels and government troops. As American soldiers began to move ashore, aid workers struggled to feed the population of Monrovia, the capital.

See article: Liberia's despot resigns

After years of stalling, **South Africa's** government announced that it would make anti-retroviral drugs routinely available in the AIDS-stricken country. Activists said that they would reconsider charges of culpable homicide they have been pressing against ministers they believe to be responsible for failing to combat the epidemic.

Green man?

President George Bush named **Mike Leavitt**, currently the Republican governor of Utah, as the new head of the Environmental Protection Agency. Mr Bush made the announcement in Colorado at the beginning of a tour of western states to promote his green credentials.

See article: A proposed new head for the EPA

In **California's** recall election, 135 candidates were officially accepted on to the ballot. Several opinion polls showed a majority of the state's voters were ready to dump Gray Davis, the Democratic incumbent, and replace him with Arnold Schwarzenegger, the Republican front-runner. Mr Schwarzenegger's chances were bolstered by his choice of Warren Buffett, an American investment guru, as his leading economic adviser.

See article: California, the morning after

Boston's **Catholic archdiocese** released documents showing that it had previously paid $21.2m to settle sex-abuse lawsuits. The payments were made to 149 people between 1994 and 2001. There are currently 542 lawsuits against the church, which has made an initial offer of $55m to settle the claims.

Three people were arrested, including a British arms dealer, for attempting to sell a **surface-to-air missile** to a Muslim extremist group. In fact, the deal had been set up by undercover FBI officers.

See article: Arms smuggling

Firefighters in **Montana** battled to control a 40,000-acre blaze at Glacier National Park. Tourists and residents were evacuated from the park's popular Lake McDonald area.

AFP

Murders in Mexico

Mexico's human-rights minister was sacked and her post abolished after Amnesty International issued a scathing report on the failure of President Vicente Fox's government to halt or solve the murders of more than 300 young women in Ciudad Juárez, an industrial city on the American border.

See article: Human rights in Mexico

Chile's main trade-union confederation staged a one-day general strike, the first since 1986, when the country was a dictatorship. The strike gained little backing except among public-sector workers and bus and taxi drivers.

Hot news

Though the pope had urged his followers to pray for rain, Europe reached **record temperatures**. Its sweltering citizens rushed for the beaches, its forests burned and some of its nuclear plants had to be closed down because the river water to cool them was insufficient. At mid-week the long heatwave began to subside.

See article: Europe's heatwave

After a court had published the damning reasons for its earlier conviction and 11-year sentence on an associate of **Silvio Berlusconi**, for bribing judges, supporters of the Italian prime minister hit back: let parliament set up an inquiry into political use of the courts.

See article: Mudslinging in Italy's politics

The **German** cabinet approved a wide-ranging package of new measures of reform, covering welfare, the

labour market, municipal finance, and more. Gerhard Schröder, the chancellor, called it “the most significant set of structural reforms in the social history of Germany”. But how much would actually get into law?

See article: Germany's federalism and finances

A **British judge** began hearings into the suicide of David Kelly, a defence-ministry scientist who had told journalists about unease in the intelligence services at the government's handling of information about Iraq's alleged weapons of mass destruction.

See article: Kelly inquiry and the BBC

A **Spanish** newspaper published leaked documents showing how the government had told its general staff to present as fact questionable judgments concerning Iraq's alleged weapons of mass destruction.

In **France** anti-globalists, anti-capitalists, anti-marketeers and plain anti-the-government activists joined in a huge three-day manifestation-cum-festival demo on the Larzac plateau in the south-west of the country.

See article: France's great anti-globalisation demo

AFP

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Business this week

Aug 14th 2003
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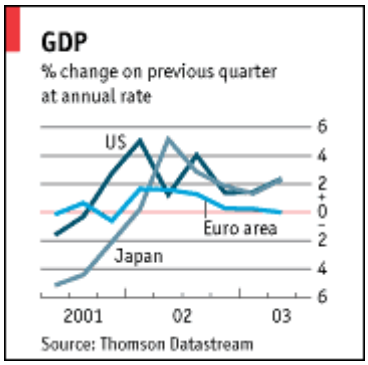
A plan for agriculture

America and the EU agreed a joint plan for **farm-trade reform** that would remove subsidies and lower trade barriers in an effort to revive the Doha round of trade-liberalisation talks. Although details were sketchy, poor countries said the deal did not go far enough.

See article: Can do in Cancún?

Growth in the **euro area** stagnated in the second quarter, with no increase compared with the previous quarter and growth of just 0.4% over the past year. Germany's economy contracted by 0.2% at an annual rate, the third successive quarter of decline. But **Japan's** economy grew at the surprisingly brisk pace of 2.3%.



AOL alone

America Online's hype-laden takeover of **Time Warner** in 2001 promised to transform the media business. However, tumbling shares, hefty debts and problems at AOL prompted the online division to ask that its name be deleted from the firm's title. A sensible way to revive the brand, said AOL insiders; jumping before it is pushed, sneered critics.

An American jury awarded $521m to **Eolas Technologies** and the University of California after finding **Microsoft** had infringed a software patent. It is accused of using the technology to aid the Internet Explorer browser in its battle for supremacy with Netscape. Microsoft promised to appeal.

Arun Sarin, newly installed chief executive of **Vodafone**, made a swift impression. Days after offering £155m ($249m) for Project Telecom, an airtime wholesaler, the British mobile-phone giant bid £405m for another, Singlepoint.

Air raising

Lufthansa surprised observers with an operating profit of €65m ($74m) in the latest quarter. The German airline has cut jobs and flights to offset the effects of SARS, the war in Iraq and the poor state of the world economy.

America's **aviation regulator** added to the worries of the country's airlines. Carriers will be required to report the number of deaths, injuries and losses to household pets that they transport.

Mixing the grape and the grain

Foster's, a giant Australian drinks group, said that it hoped to raise some A$1.4 billion ($920m) through an initial public offering of its pub chain. The brewer may use the cash to buy a big winemaker, hoping to offset declining sales of the amber nectar by providing tipplers with something a little fancier.

Randgold Resources launched an audacious bid to snatch Ghana's **Ashanti Goldfields** from

AngloGold. The British-based mining concern bid $1.5 billion, trumping a $1.1 billion offer from the Anglo American subsidiary. But the all-share offer's glitter may have faded as Randgold's share price tumbled.

See article: A takeover battle in Africa

In an attempt to arrest escalation, **Gillette** filed a lawsuit against **Schick** to stop the launch of the rival American razor-maker's latest product, the Quattro. Gillette, maker of the three-bladed Mach 3, say that its razor-stacking technology has been filched by Schick for its four-bladed monster.

French exception

As the European Commission testily awaited details of the French government's €3.4 billion ($3.8 billion) rescue of **Alstom**, the engineering giant heard that America's Securities and Exchange Commission would launch a formal investigation into accounting irregularities at its American train-making arm.

Vivendi Universal won the right in a French court to freeze a severance payment of €20.5m ($23.2m) to Jean-Marie Messier. Its former chief executive's acquisition spree saddled the firm with the mammoth debts that it is still trying to bring under control.

The European Commission delayed its investigation into **Lagardère's** bid for the European publishing arm of Vivendi Universal. The commission said it could not continue while the defence and publishing firm withheld vital information about the deal.

UBSide

Improving world stockmarkets helped **UBS** to a bumper second-quarter profit of SFr1.6 billion ($1.2 billion), 23% more than a year ago. The Swiss bank's unexpectedly healthy results came just days after similar good news from a rival, Credit Suisse.

Warren Buffett's sagacity was in little doubt. Berkshire Hathaway, his investment firm, made $2.2 billion in the second quarter, more than doubling profits compared with the year before.

Deutsche Bank issued a lawsuit against two insurers of its New York office damaged in the September 11th attacks. Germany's **Allianz** and France's **Axa** insist that the building can be repaired; Deutsche Bank want $857m towards constructing a nice new one instead.

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America and empire

Show me the way to go home

Aug 14th 2003
From The Economist print edition

"War lite" is all very well. Empire lite is a mistake

EMPIRES are born in funny ways, and sometimes, via the law of unintended consequences, by accident. In his 1998 declaration of war against "Jews and Crusaders", Osama bin Laden said his aim was to force America's armies to depart "shattered and broken-winged from all the lands of Islam". So far he has achieved the opposite. Within less than two years of the felling of the twin towers, America has invaded and occupied two Muslim countries, Afghanistan and Iraq, with a combined population of more than 50m. If this has surprised Mr bin Laden, it may be no less of a surprise to America itself. Who expected the colony that started its own national life by casting off the empire of George III to end up running a far-flung Muslim Dominion of Iraqistan?

However it happened, Americans are not enjoying it much (see article). The Afghan war of 2001 and the Iraq war this spring were walkovers, costing between them a grand total of fewer than 150 American lives. For the superpower, if not its adversaries, this has been "war lite". But staying on has been less of a breeze. For one thing, some of the locals do not seem to know when they are beaten: nearly 60 Americans have been killed in Iraq since George Bush declared the end of major fighting. For another, it is expensive: the fighting alone has already cost American taxpayers some $65 billion. On some estimates, rebuilding the country could add anything up to $600 billion. To top it all, Iraqistan is not the very feather a self-respecting empire would choose for its cap. Iraq minus Saddam and Afghanistan minus the Taliban are better off than they were before these subtractions. But both are still a mess.

Reluctance good, incompetence bad

Given this, it is not hard to see why in America itself the champions of "neo-imperialism" are now being drowned out by voices clamouring for an early exit. Nor is it any disgrace. Mr Bush said all along that America went to Iraqistan in order to defend itself, and would leave these places the moment its job was done. What would be a disgrace is to cut and run before then. It is on the whole a good thing for both America and the world that the superpower is a reluctant imperialist. An incompetent imperialist is bad for everybody.

Has America been incompetent? At first glance, you could almost make a reasonable case that in Afghanistan it has done moderately well. That country is now more or less at peace; an Afghan government exists; a constitution is being written; NATO has taken over control of the international peacekeeping force in Kabul; and America's own garrison has been reduced to a minimum. The trouble is that all these accomplishments are either fragile or incomplete (see article). The south of the country is still too dangerous for aid workers to work in. The government's writ does not extend much beyond Kabul. Local warlords, deep into the heroin trade, wield the real power. The Americans may have deprived Mr bin Laden's men of a safe haven. But Afghanistan remains a failed or non-existent state, still capable in the future of visiting its failures violently upon the West.

America's (and Britain's) post-war performance in Iraq is harder to defend. Even allowing for the scale of the task, they have made a botch of things so far. Americans are famous not only for having supposedly limitless resources but also for their energy, can-doism and powers of improvisation. And yet, three months into the occupation, a scorching Iraq is still waiting for reliable supplies of power and clean water. The occupation authorities have created a Governing Council of Iraqis. Although broadly representative of

Iraq's tribes and factions, this body is, however, the unelected creature of the Americans and British, consisting for the most part of returning exiles. It is a transitional achievement, at best.

So what has gone wrong? A common explanation from the superpower's critics is that the Americans are paying the price of “unilateralism”. Had the Iraq war been waged under the banner and with the authority of the United Nations, they say, many more countries would now be helping to put the place back together. Of a score of countries with troops in Iraq, a mere 13,000 come from 19 countries and the 148,000 others are American. Many more countries share an interest in a peaceful and prosperous Iraq. But since the Americans insisted on going it alone, argue some of those holding back, they can jolly well sort out the mess by themselves.

This is not quite fair. Had the Americans waited for the Security Council's authority (and Mr Bush did try for it), Iraqis would probably still be squirming under the dictator's heel. But since the war the Americans have indeed been excessively reluctant to give up a little of their own authority in Iraq so that the UN might have a little more. Though the Security Council has its own man in Iraq, his powers are vague and it is America's proconsul, Paul Bremer, who calls the shots. The present arrangement has the merit of giving America control of a situation for which America will in the end anyway be blamed. But why not seek a new resolution that tweaks the balance enough to encourage more countries to lend a hand?

Do it right, then go

Putting a sturdier international umbrella over America's accidental empire should not be seen as just a way to defray the costs. It would help in many other ways. In Iraq in particular, it might reassure those who say that America is interested only in plundering their oil. In Afghanistan, the presence of a muscular Office of the High Representative, like the one that was created for Bosnia (and backed by a muscular peacekeeping force), would have helped Hamid Karzai's government to impose his will on the warlords. But internationalisation is not, by itself, a panacea. In the end, only America has the military and economic heft to ensure a decent outcome in these places. And, in a paradox, those Americans now clamouring for an exit from Iraqistan should be pushing their government to do much more in its new dominions, not less.

America succeeded at “war lite”. But it would be an error to follow up with what a Canadian writer, Michael Ignatieff, has called “empire lite”. Even an unwanted empire is an empire, and hard to run on the cheap. Iraqistan requires the urgent application of more money, attention and ingenuity than America has invested so far. This need not mean staying for “the long haul”, as people say. It is possible that by doing more now, America may be able to pull out sooner. The key is to make enough of an effort now to ensure that these places will remain stable when the empire goes home.

The needs of the two places are not identical. The priorities for Iraq are to raise an effective local police force and put together a clear plan and timetable for a constitutional assembly and the election of a government that Iraqis will see as their own. Afghanistan needs more peacekeepers. In Bosnia in 1995, as soon as peace was agreed, America, Britain and France inserted 60,000 peacekeepers. By contrast, the whole of Afghanistan, a country 12 times the area with seven times the population, has only 5,000 or so troops providing security, plus another 12,000 or so mopping up the remnants of the Taliban and al-Qaeda. What folly. Failed states that are allowed to fail again will just have to be rescued again, if they are not to become a renewed threat to the security of the West.

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Growth in Europe and America

The tortoise and the hare

Aug 14th 2003
From The Economist print edition

The world economy cannot continue to rely so heavily upon America

IN THE late 1990s *The Economist* viewed the American economy as the hare and the economies of the euro-area as the tortoise. The American hare's rapid pace of growth was, we believed, exaggerated by a large economic and financial bubble. Once that bubble burst, we expected America's economy to slow sharply, while the steadily plodding European tortoise, whose economy looked relatively free from the financial imbalances that had built up in America, would start to pull ahead. America's economy has indeed slowed sharply, and the euro area did briefly grow faster than America in 2001, but the hare has since sprinted into the lead again. Europe's sluggish growth is not only a disappointment for Europe: the persistent growth gap between America and much of the rest of the world could spell trouble for the whole global economy.

The gap between growth rates in America and the euro area has widened this year. Germany, Italy and the Netherlands are in recession and output in the euro area as a whole stagnated in the second quarter. Indeed, the euro area currently looks even sicklier than Japan, where GDP grew by an annualised 2.3% in the second quarter. But most forecasters still expect Japan's economy to grow by less than 1.5% over the next couple of years. That leaves America as the main driver of the world economy, even though the American economy is hardly in the prime of health. Much of its 2.4% growth in the second quarter came from a sharp increase in defence spending during the Iraq war, and employment continues to decline. Nevertheless, recent tax cuts are almost certain to boost growth in the second half of this year, and forecasters widely expect America's economy to outpace the economies of the euro area and Japan over the next few years.

The euro area's slower growth is surprising given that the bubble supposedly created fewer excesses (such as households over-borrowing) in Europe than in America. One explanation is that growth comparisons are distorted by America's faster population growth. GDP per head in the euro area has grown at exactly the same pace as in America over the past three years. But that isn't good enough. After America's bubble burst, the euro area economies should have grown faster. Many commentators argue that structural rigidities, such as inflexible labour markets and high tax rates, are to blame. But there are more important reasons why the euro area economies have been looking less robust than America's over the past few years. First, America has enjoyed a much bigger monetary and fiscal stimulus than the euro area, where fiscal policy has been constrained by the straitjacket of the stability and growth pact. Second, although consumer borrowing has been more modest in the euro area, its corporate borrowing and investment binge in the late 1990s was bigger than in America (see article) and this is now cramping growth.

A hobbled hare

As a result, the world economy is still too reliant on America. Morgan Stanley calculates that America has accounted for over three-fifths of global growth since 1995. That is unsustainable. Most economists expect America's GDP to grow by 3.5-4% over the next few years. But that would imply that household saving remains low and consumer debts continue to grow at an alarming pace, storing up big problems for the future. The huge monetary and fiscal stimulus that has so far underpinned demand cannot be repeated. Moreover, suppose America's economy does rebound rapidly while other economies remain sluggish. Then, America's already massive current-account deficit will widen further as more imports are sucked in, building up a new problem.

The current-account deficit is already as large as 5% of GDP, and history suggests that deficits of this size are usually followed by big declines in the currency. A dollar crash could curb growth in Europe and Japan as well as pushing up American bond yields—and mortgage rates—as foreigners demanded a bigger risk premium. Some argue that America's current-account deficit does not matter; it simply reflects foreign investors' desire to invest in American assets. But UBS estimates that more than half of America's current-account deficit in the three months to June was financed by foreign central banks' purchases of American securities. Private investors' love affair with the dollar has already faded.

The world economy would be a lot healthier if Europe and Japan took some of the strain off America by pursuing looser monetary and fiscal policies and structural reforms to boost their growth. And America would be healthier if it grew more slowly than its potential for a few years, so allowing households to bring their finances into better balance. Without a more even sharing of growth, both the hare and the tortoise risk being run over in a nasty accident.

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Trade talks

Vital signs

Aug 14th 2003
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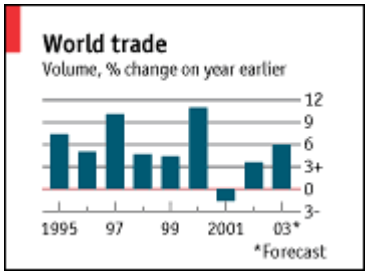
Good news: the Doha Round still has a pulse



TRADE ministers from all over the world are due to meet in Cancun barely three weeks from now. One of the things they must decide is whether a new pact to liberalise global trade can be fashioned, according to plan, by the end of next year. The chances of success in this endeavour, so crucial to the prospects of the world's poor countries, remain slim—but this week they at least looked better than zero. Don't scoff. When it comes to trade policy, where governments are reliably at their craven, cynical and incompetent worst, one must be grateful for all mercies, however small.

The new ground for hope is an understanding, announced on August 13th, between America and the European Union on farm trade. Because of this agreement, the risk that the round might collapse altogether before it had even got properly under way has abated. If the United States had ruled that the EU's latest proposals on farm trade, announced in June, offered no basis for negotiation, then such a collapse would surely have followed. Agreement on agriculture, first between the United States and Europe (both of them egregious agricultural protectionists) and then between those two and everybody else, is indispensable if a broader package of trade liberalisation is to be put together: without it, many developing countries will feel that the new round offers them nothing.

So the new agreement is a breakthrough? Hardly. Trade-watchers will be unsurprised that it has virtually no content. The deal mainly reaffirms the fine liberalising intentions already expressed in the Doha declaration. Yes, it also purports to set out a framework for achieving those aims, so far as agriculture is concerned—through curbs on the most trade-distorting kinds of domestic support for farming, lower rich-country trade barriers against the developing countries' farm exports, and cuts in rich countries' subsidies for their own farm exports. But the real bargaining on these issues lies ahead: none of the cuts is quantified, none of the affected products is specified, none of the timetables for reform expresses anything so binding as an actual date. In effect, Europe and America have merely agreed to come to an agreement.

Other countries would be within their rights to say that, after so many years of procrastination on farm trade, this is not good enough, and to walk away from the round. But that would be unwise, and they probably will not do it. So long as there is even a chance of meaningful farm-trade reform—and Europe and the United States have at least affirmed their commitment to that goal—the talks are worth pursuing. Also, with this new text, empty as it may be for now, Europe and America have spent some political capital on signalling that they want the round to proceed and be a success. Lately, not even that desire could be taken for granted.

All the work is still to do. But the Doha Round is still breathing. Good news on trade: enjoy it while it lasts.

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Credit-risk transfer

Gone too far?

Aug 14th 2003
From The Economist print edition

You can have too much of a good thing—even in financial regulation

AP

COMPLACENCY is not a word associated with Alan Greenspan. Yet the chairman of the Federal Reserve may be guilty of just that when he unreservedly praises the resilience of today's biggest banks, as he has repeatedly done.

Resilient the big banks certainly appear from their impressive earnings for the second quarter of the year. It is as if Enron, WorldCom and the world slowdown had never happened. So why should Mr Greenspan not be pleased? The answer is that the Fed, like any good central bank, is not just a banking watchdog, but should be the guardian of the health of the broader financial system. And that depends on distributing risk to where it is most efficiently handled. For the past five years or so, the world's biggest banks have been getting rid of their credit exposures by selling the risk to others such as insurance companies and investment funds (see article).

For the banks, it certainly makes sense. First, unlike insurance companies or investment funds, they are required by regulators to hold capital in proportion to their loan book. So it is more expensive for banks than for non-banks to hold loans. Second, they have turned the securitisation of credit risk into a trillion-dollar industry—one area of banking that still generates hefty returns. Third, in an era of low interest rates they have found plenty of punters willing to take on higher risks for higher potential rewards.

It also makes sense for the economy as a whole—in principle. As every previous financial crisis has shown, banks are inherently dangerous institutions, because they take in short-term deposits and lend for the longer term—and so panics can easily occur, either led by depositors or by the banks that lend each other money. Such systemic risk, which has always been the justification for applying especially tough regulation to banks, does not threaten other parts of the system, such as insurance companies and investment banks. Mr Greenspan is right to celebrate the fact that since the stockmarket crash of 2001-03 in America and Europe no big banks have failed. Had they done so, economic slowdown could well have turned into a sharp recession.

However, that does not make risk transfer entirely safe and always welcome. The danger is that the risk has passed from banks, where it must be accounted for at fair value, to other entities where losses can more easily be fudged or hidden. The process of credit-risk transfer now totals trillions of dollars. Unlike the well-established market for corporate bonds, in which there is a daily market price, many instruments of credit-risk transfer, such as secondary loans, credit default swaps and collateralised debt obligations, are difficult to turn back into cash. Large chunks of the “structured” credit market, which bankers boast has transformed the nature of credit and the way it is handled, are in fact dangerously illiquid.

As the Bank for International Settlements argued in its annual report in June, if credit losses, real or potential, are building up somewhere in the financial system, it may be better to know about them sooner rather than later. Yet regulators are collectively strengthening this trend. Their new rules on bank capital, known as Basel 2, due to apply from 2007, are already affecting bank behaviour. Basel 2's insistence that banks should hold adequate capital to match each and every credit risk, without concessions for portfolio diversification, gives banks an even greater incentive to get these risks off their books. It is as if regulators were determined that credit risk should be forced out of the institutions that have the greatest credit expertise, and long-standing relationships with their borrowers, into more arm's-length institutions.

One answer is a reform to Basel 2. Another may be an extension of the supervision of insurance firms and other buyers of these risks. Whatever is done, the consequences of the massive credit-risk transfer of recent years are going to have to be monitored closely—both by financial regulators and, just as important, by the buyers themselves. Have they done good deals or been taken as suckers? Many still aren't saying.

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Airports

What was that you said?

Aug 14th 2003
From The Economist print edition

Why Heathrow should not grow any more

Flight Collection

TO LONDONERS seeking relief from the British summer in cooler climes such as Cairo and Delhi (30°C and 31°C at midday on Monday of this week, compared with London's 38°C) Heathrow's proximity is a boon. It is close to the centre of the city and offers more direct flights to foreign parts than any other airport. To those staying at home, it's a bind, for the same reasons: it is the world's busiest international airport, and is closer to more residential housing than any comparable hub.

And it seems likely to get busier still. The number of passengers flying into and out of Britain every year, says the government, is going to triple by 2030. London's airports will not be able to cope. Alistair Darling, the transport secretary, has said that he will decide by the end of this year where to build more capacity—at Heathrow in west London, Gatwick to the south (where the local council has a legal agreement to prevent expansion until 2019) or Stansted to the north-east in a relatively empty bit of Essex. It seems likely (see article) that the government will opt for a third runway at Heathrow, which would increase the airport's capacity by nearly half.

But both the premise and the likely conclusion are dubious. These demand projections are based on falling prices. Yet even current prices do not reflect the full cost of flights. Airlines (unlike any other form of transport) are exempt from fuel tax, tickets are exempt from VAT, and the government makes no attempt to price in the environmental costs of flying. Noise aside, estimates for the cost of the carbon dioxide, hydrocarbons and other gunk aeroplanes spew out around the world range from £1 billion ($1.6 billion) to £6 billion a year.

Pricing environmental costs into tickets would probably dampen demand growth, but not stop it. More airport capacity would still be needed around London. So where to put it? Business wants a bigger Heathrow. The lobby is headed by British Airways and Virgin, which have the largest number of Heathrow slots. The Treasury agrees, not just because of those companies' lobbying power, but also because Heathrow has created 68,000 jobs directly, and more indirectly—though its benefits can be overstated, since a quarter of passengers arriving in Heathrow leave without setting foot outside the airport.

And for Britons who live beyond the flightpath, there's something to be said for a hub. Airports are a classic case of network economics: the more people go to them, the more people want to go to them, because of the number of connections that can then be offered. So Britons benefit from Heathrow's size, because it means they can fly directly to almost anywhere in the world.

Set against that, though, are the sufferings of local residents. Nobody would now build a big airport 15 miles from the centre of the capital. No other rich-world city puts up with what London puts up with. Aircraft swoop over a large slice of south and west London every 30 seconds at peak times, disturbing speech in the daytime and sleep at night.

The price of peace and quiet

Putting a figure on such environmental costs is hard—conversation and quiet nights are difficult to price—but hundreds of thousands are affected by flights in to Heathrow, compared with tens of thousands in the less-developed area around Stansted; so whatever suffering further development of Stansted would

inflict, it would be that much greater around Heathrow. Roy Vandermeer, the government-appointed inspector in charge of the four-year-long inquiry into whether to build a fifth terminal at Heathrow, concluded in 2000 in favour of a fifth terminal, but said that a third runway would have “such severe and widespread impacts on the environment as to be totally unacceptable”.

The argument for making Heathrow bigger is that it is already big. But it cannot go on growing forever. At some point, the government will have to make the decision—as France did in 1966, when it started building Charles de Gaulle—to develop a new hub. Stansted, your time has come.

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Letters

Aug 14th 2003
From The Economist print edition

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Berlusconi: for and against

SIR – Silvio Berlusconi is an elected politician of a sovereign country ("Dear Mr Berlusconi...", August 2nd). At the next elections Italian voters will have the opportunity to give their verdict on him. Laws passed by the current government may well be binned by a new one. Your campaign may strengthen support for Mr Berlusconi from ordinary people like the man who cuts my lawn. He sees him as a clever man who has made his pile with his own wits, unlike most others who robbed the state. It is said that British disdain for Mussolini drove him into Hitler's arms. Although there is no Hitler around today you should be careful not to alienate a friendly and talented people.

Antony Wood
Comano, Switzerland

SIR – Italians voted for Mr Berlusconi because previous governments failed to deliver. We all know that he is corrupt but so is every politician in Italy, as well as almost every bureaucrat and businessman. That Mr Berlusconi has managed to stay on top for so long you despise, but Italians admire him just for that. In a country where nothing ever changes he seems to move things forward. Forza Italia won more seats than any other party because the competition has nothing to offer. In order to unseat Mr Berlusconi you need a great politician, and there are none around.

Mathias Sapper
Los Angeles

SIR – I have always had a high regard for your publication. However, your latest salvo against Mr Berlusconi is ridiculous. It diminishes you to the level of a cheap tabloid. Your tenacity begins to look more like a personal vendetta. Italians do not need *The Economist* to be reminded about the affairs of our prime minister. We can wash our dirty laundry in private.

Filippo Maria Olivi
Singapore

SIR – Mr Berlusconi certainly has problems but anyone who suggests that Jacques Chirac has "missed another opportunity to be quiet" can't be all bad.

Steve Hagen
Littleton, Colorado

SIR – As an Italian, I am not at all offended by what I read about Italy's prime minister. On the contrary, I am glad a publication so authoritative and above all suspicions of acting as a "communist" agent (Mr Berlusconi's usual dismissal of those who dare to criticise or question him) is trying to shed light on the dubious origin of his fortune and on his reasons for entering politics. Europeans should be made aware that he could be as devastating to their institutions and to democracy itself as he is to Italy's.

Susy Dan
Venice

SIR – Mr Berlusconi's ability to put himself above the law is ultimately based on his control of the mass

media in Italy. Through his use of the media, and with no base other than his own insistent word, Mr Berlusconi has caused a large number of Italians to distrust their magistrates and to believe that they have a programme to assault him. The present public uncertainty has allowed Mr Berlusconi's coalition to pass legislation first to make it difficult to prosecute him and finally to bar him from judgment.

This is why careful attention should be paid in democratic countries to existing rules devised to prevent single groups or individuals from controlling large shares of the mass media.

Giacomo Piscicelli Teggi
Milan

SIR – Hurrah for *The Economist*'s courage. Your article is a great help to Italy and heartens all those who cannot stand Mr Berlusconi and his despicable running of Italian and even European affairs in his own private interest.

Luigi Majno
Milan

SIR – As an honest Italian citizen I would like to thank you for publishing the dossier. This letter is to encourage you and to let you know that there is a part of Italy which did not vote for Mr Berlusconi (or for Bettino Craxi).

Monica Rossi
Campobasso, Italy

SIR – You suggest that Mr Berlusconi is Europe's "most extreme case of the abuse by a capitalist of the democracy within which he lives and operates." But who is the world's most extreme example? Or is the question too Thaksin?

Somjai Saelim
London

Ashdown in Bosnia

SIR – Unfortunately, your report on Paddy Ashdown's work as high representative for Bosnia-Herzegovina gives a misleading impression ("The viceroy rules, OK? Not everyone thinks so", July 26th). Your report is based on an academic article whose authors claim that Lord Ashdown is running Bosnia like 19th-century India. However, this is an extreme (and inaccurate) opinion in what is a diverse and lively debate.

The most authoritative account of Lord Ashdown's first year in office takes a very different view. The report by the International Crisis Group, published around the same time as the article in *The Economist*, says that "it is too soon either for despair or for neo-colonial guilt" and goes on to say that "in order to get out, the country's foreign guardians will have to get in more deeply. In order to abjure use of the Bonn powers [the high representative's ad hoc powers], Ashdown will need in the short run to use them more intensively."

Analysts will no doubt continue to argue the toss on this. In the meantime, Lord Ashdown intends to get on with his job of helping Bosnia become a fully functioning European state, according to the agreed programme set out in the Office of the High Representative's mission-implementation plan (available on www.ohr.int).

Julian Braithwaite
Director of communications
OHR
Sarajevo

Mind your language

SIR – Charlemagne talks of European Union insiders who "avoid calling anything by a name that might let an outsider guess what is being talked about" (August 2nd). Calling the EU the world leader in this practice is patently unfair to a European country that has been at it for centuries. There, for instance, the

home of the capital's police force is a yard named after a distant part of the country, and the central criminal court sounds like a brand of liqueur. Its Parliament and government are usually referred to using the names of a district and a street respectively, while the office of the prime minister is just a house number. Most foreigners probably find this innocuous practice rather endearing. One can only hope that one day the same will be said of the EU.

Mathias Koenig-Archibugi
London

SIR – Charlemagne is too generous in his description of the language of Brussels. He describes the replacements to the pre-Prodi practice of numbering departments of the European Commission (DG1, DG2, etc) as obvious and mentions examples such as DG Trade. There was an alarming flash of clarity for a moment but to sighs of relief from Brussels insiders we soon adopted a more comforting set of polylingual abbreviations, returning DG JAI, EAC, TREN, SANCO and RELEX safely back to obscurity.

Philip Sheppard
Brussels

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America and empire

Manifest destiny warmed up?

Aug 14th 2003
From The Economist print edition

America, it is said, is the world's latest imperial power. Don't believe it

WHAT is the shelf-life of an idea? Just a few short months ago, the talk—and not just in Washington, DC—was of empire, America's that is. Even before the invasion of Iraq, pundits of all stripes were casting aside their coyness to proclaim that America was the latest imperial power to bestride the world. Today, with tribulations besetting the new Romans in both Afghanistan and Iraq, their most recent conquests, the chorus has died down, but the idea is far from dead. Too many people have invested too much in it.

For several years, after all, commentators have been announcing the discovery of an American empire. Books and articles have poured forth, professors and pundits have pondered the implications— and a surprising number have welcomed the new role. “No need to run away from the label,” argues Max Boot, a fellow at the Council on Foreign Relations in New York: “America's destiny is to police the world.”

Behind the claim lies a conjunction of circumstances. First is the sheer scale of America's power. While the sole superpower remains more than ready to put its technological prowess to military use, its western allies, wearied by centuries of fighting, have been quick to cash in their post-cold-war peace dividends and turn to more pacific pursuits. Russia is diminished. China still lags behind. America's pre-eminence in the skies, at sea and on land is thus unchallenged. In terms of both brute force and gee-whizz gadgetry, it leaves even its nearest competitors standing, or rather quaking.

Matching this military might, runs the argument, is an unrivalled degree of economic power. Throw together all the output from Hollywood and Silicon Valley to Wall Street and Tin Pan Alley, and you have a commercial empire that would have been the envy of the British East India Company or Cecil Rhodes. And with “hard” power and “soft” power combined, you have influence on a scale never seen before. The polite term for it is hegemony, but in reality, as Mr Boot says, it is Globocop. What other country divides the world up into five military commands with four-star generals to match, keeps several hundred thousand of its legionaries on active duty in 137 countries—and is now unafraid to use them? For, stung by the events of September 11th, America is no longer shy about spilling blood, even its own. Weren't the Afghan and Iraqi wars largely designed to show just that?

To power and global reach can therefore be added another imperial characteristic: an actual desire to sally forth and act. Even before Americans were attacked on September 11th 2001, influential voices were calling for a more activist foreign policy. Some were what Ivo Daalder, a fellow at the Brookings

Institution in Washington, DC, calls “assertive nationalists”, some were “democratic imperialists”. Both groups were impatient with the constraints imposed by treaties, multilateral action and America's membership of international clubs like the UN. Both wanted to see America hit back when attacked. Both thought the Clinton administration had been timid, if not craven, in defence of American interests.

If, before September 11th, George Bush belonged to either of these groups, it was to the assertive nationalists—along with men like Dick Cheney, his vice-president, and Donald Rumsfeld, his secretary of defence. The president's instincts were to take robust action if necessary, but to avoid foreign entanglements. In particular, even as a candidate, he had been hostile to the idea of “nation-building” (correctly, state-building) abroad, an ambition more closely identified with the democratic imperialists, also known as neoconservatives. Later, though, Mr Bush started to come round to that idea. September 11th, he was to say a year after the event, “taught us that weak states, like Afghanistan, can pose as great a danger to our national interests as strong states.” Accordingly, “We will extend the peace by encouraging free and open societies on every continent.”

So there it is. The American empire passes the duck test: it not only looks like a duck and walks like a duck, it also quacks like a duck. And, unfashionable as the idea may seem, it has been given a remarkably warm reception. Even non-Americans seem well-disposed. Over a year ago Robert Cooper, a British diplomat, called for “a new kind of imperialism”, albeit one that would be provided by the “post-modern European Union”. Michael Ignatieff, a Canadian now at Harvard, has also been ready to argue that “imperialism doesn't stop being necessary just because it is politically incorrect,” though not for him another European imperium. Doubtful as he is about the enterprise, he can see no alternative to American leadership.

Many like Mr Ignatieff are ready to lend support to the idea of an American empire, moved by a desire to bring people living in failed states out of their disorder and misery, and believing that only America can run such an empire. Others are more concerned to deny terrorists a base from which to launch attacks on what was once the inviolable fortress of the West. All take succour from recent, generally favourable reassessments of the British empire, notably the one offered in a book (and television series) by Niall Ferguson, a Scottish historian now at New York University. “What the British empire proved”, writes Mr Ferguson, “is that empire is a form of international government that can work—and not just for the benefit of the ruling power.” The British empire, he suggests, “though not without blemish”, may have been the least bloody path to modernity for its subjects.

Such thoughts are still too controversial for senior members of the Bush administration to utter aloud. “We don't seek an empire,” avers Mr Bush himself. “Our nation is committed to freedom for ourselves and for others.” With equal vigour, Mr Rumsfeld insists: “We're not imperialistic.” But after one regime-changing war in Afghanistan and another in Iraq, the administration seems to be gathering the wool of empire, and doing so with a civilising mission that sounds pretty imperial.

If Mr Bush does not state the aims explicitly, the neocons feel no such embarrassment. For them, Afghanistan and Iraq are just the start. The transformation of the entire Middle East—Iran, Syria, Saudi Arabia, the lot—must now ensue. In logic, once that is democratised under American tutelage, other regions will have to follow. The United States has long felt free to intervene in Latin America; even before September 11th it was being drawn into Colombia. The Balkans, after a more direct intervention, are benefiting from even starker American supervision (or indirect rule, to use the imperial term, via the EU and UN). Can parts of Asia and Africa be far behind?

Perhaps they can. It depends, of course, on what is meant by empire, and therefore on what counts as a constituent part. In one sense, America has had an empire for years. In pursuit of its “manifest destiny”, which would have been called *Lebensraum* (room to grow in) in 1930s Germany, 19th-century American expansionists laid claim to most of their continent. Some parts, such as Alaska and the huge swathe of land between the Rockies and the Mississippi that came with the Louisiana Purchase, were bought. Others were acquired more traditionally: California, Nevada, Utah, New Mexico, Arizona and parts of Colorado and Wyoming all fell into America's lap at the end of the 1846-48 war that President James Polk had baited Mexico into fighting, chiefly to obtain California.

A second imperial phase came after the Spanish-American war of 1898. This “splendid little war”, in the words of the secretary of state, John Hay, delivered Cuba, Puerto Rico, Guam and the Philippines. The expansionist impulse continued under Teddy Roosevelt, whose big stick (carry one, while talking softly, he advised) and amendments to the Monroe Doctrine (his corollary proclaimed the United States' right to intervene anywhere in Latin America to prevent the Europeans doing so) have helped to make him a hero in today's Washington. A man of pre-emptive action—grab Hawaii, or see it threaten America's west coast, he argued—Roosevelt is Mr Bush's favourite president, and hugely admired by Mr Rumsfeld too.

But soon America was drawing back, first under Roosevelt himself and then under Woodrow Wilson, whose “14 points” set out an idealistic programme for a just peace after the first world war, based on collective security and national self-determination. Yet by the end of the next world war, America, the only country to emerge unambiguously strengthened, had entered a third imperial phase. It was formally in occupation in West Germany and Japan, and it was the de facto power in a variety of places from Dutch Indonesia to the Belgian Congo, from most of Latin America to much of Indochina.

If these earlier imperiums were empires, then perhaps America has indeed acquired a new one. But if the imperial attribution is to mean anything, an empire has to have at least two characteristics besides those of huge might and a willingness to use it. An empire must also be a hierarchical system, in which ultimate control resides at the centre, in this case Washington, DC, and all the colonies, client states, satrapies, sepoys, slaves and helots must understand that. And it must be enduring. True, territories can be acquired one by one for a series of different reasons, as Britain's first colonies were. But, as Adam Smith said, “every empire aims at immortality.” In other words, running colonies collectively as an empire requires the intention of either continuous control or, more likely, some sort of transformation, which is where state-building comes in, ideally laced with a bit of missionary zeal. The thrills of empire are not those of the one-night stand.

In short, the empire now proclaimed in America's name is at best a dull duck, at worst a dead duck, unless it is to be a big strong drake that intends to throw its weight around for quite a while. And this in turn raises two difficulties for the concept of a new American empire. One is that the subjects won't like it. The other is that Americans won't either.

Theory, meet practice

For the truth of the first proposition, take a look at Iraq. Four months after the fall of Baghdad, America still faces what one of its own top generals has called “war, however you describe it”. Even at the outset, the happy natives failed to greet their liberators quite as joyfully as some had so obviously hoped. Yes, Saddam Hussein was loathed; no, the Iraqis would not die for him in any numbers; but now, please leave us to get on with our own affairs. No matter that the Iraqis are in no position to run their own affairs. They still do not want their country run for them. Resistance is encouraged by the emperor's failure to fix the plumbing, stop the looting and get the lights back on, never mind the constant indignities that go with running an empire: arrests, roadblocks and house-to-house searches that offend the modesty of devout Muslim women. The combination of cock-up and hostility has not only cost the new administration its first boss, Jay Garner. It has also led America to reverse its plans to start cutting the number of its occupying troops. A constitution and free elections are promised for next year, but the progress towards democracy has been much slower than was at first hoped.

Just a few teething troubles? Up to a point, certainly. But Afghanistan, too, suggests that the imperial role is neither popular nor easy. Nearly two years after a singularly successful toppling of the Taliban, the country is still largely in the hands of warlords of dubious allegiance, each with his own militia (see article). They pay nominal obeisance to the proconsul, President Hamid Karzai, but pay him his dues either grudgingly or not at all, preferring to keep the revenues they collect for their own militias. The 5,000 or so peacekeepers, the emperor's proxy army, scarcely dare leave the capital, Kabul, though they are now under NATO command. In the provinces, meanwhile, anything may be going on. The UN has just said that it is suspending work in the south after a series of attacks, and the Taliban are talking of new offensives in the north.

What price commitment?

All this is grist to the mill of the true believers in America's imperial mission. It just goes to show that an early exit after a quick war solves nothing. If the peace is to endure, if the rule of law is to be established, if democratic institutions are to take root, you had better be prepared for a lengthy undertaking, with men, money and limitless patience. Such has been the lesson of Bosnia, Kosovo and Northern Ireland—a lesson yet to be learnt perhaps in Congo, Sierra Leone and countless other hell-holes less pressing on the western conscience. The neo-imperialists have logic on their side when they argue that regime change alone is not enough, and, to their credit, they say they are ready for the long haul. Mr Boot, one of their foremost advocates, believes America is too. The price is affordable, he argues, and, in its containment of the Soviet Union and other policies, America has shown it can sustain a commitment over long decades.

AP

Sorry for the inconvenience—we'll try not to be too long

It is a beguiling argument. But a contradiction lies at the heart of the imperialists' concept. Imperialism and democracy are at odds with each other. The one implies hierarchy and subordination, the other equality and freedom of choice. People nowadays are not willing to bow down before an emperor, even a benevolent one, in order to be democratised. They will protest, and the ensuing pain will be felt by the imperial power as well as by its subjects. For Americans, the pain will not be just a matter of budget deficits and body bags; it will also be a blow to the very heart of what makes them American—their constitutional belief in freedom. Freedom is in their blood; it is integral to their sense of themselves. It binds them together as nothing else does, neither ethnicity, nor religion, nor language. And it is rooted in hostility to imperialism—the imperial rule of George III. Americans know that empires lack democratic legitimacy. Indeed, they once had a tea party to prove it.

Some imperialists may be untroubled by such thoughts. Throughout their imperial history, the British, a rather steak-and-kidney sort of people, not much interested in constitutional concepts, would generally fight to defend their own freedom but did not feel obliged to introduce it in their colonies so long as democracy was in prospect for their subjects one distant day. They were helped in this happy procrastination by powerful practical interests (they exported both settlers and capital to their colonies), by a degree of racism, and by a sustained sense of semi-religious mission. And despite the many hardships, those who ran it also had fun with their empire (lots of dressing up with funny hats, playing polo and shooting tigers); and it was a commercial enterprise (“Trade follows the flag,” noted Rhodes).

Little, if any of this applies to Americans. The neocons may have the missionary zeal, but even this is likely to pall in the face of setbacks. There is certainly no zeal to bear the financial burden: Mr Bush's latest budget was drawn up without any money at all for Afghanistan, and the costs are rising in Iraq (to nearly $4 billion a month, just for the soldiery), even as Mr Rumsfeld says more troops may be needed. Unlike most empires of old, the United States is an importer, these days, both of capital and of migrants.

America has changed since September 11th. The new mood allows for more nationalism, more assertiveness, less patience with allies, a greater readiness to go it alone. But there is no appetite to spend a lifetime in a sweaty country in the service of a noble cause. The memories of Vietnam, where every effort to withdraw or hand over to the locals seemed to lead to further entanglement, have not departed. And though the rhetorical heat may now be turned on Iran and Syria, Mr Rumsfeld and his fellow fire-eaters know full well that Americans are not ready for another invasion. Even if, hallelujah, regime change in such countries could be effected peacefully, would the United States really be prepared to shoulder the white man's burden across the Middle East?

It is unlikely, to say the least; the imperial idea is a big exaggeration, like previous fads. It was fashionable, after all, to declare history at a close not so long ago. The new battlegrounds would be markets, said some pundits. Commerce, ideas and information were the weapons of the modern world; military might was for the pterodactyls. To be sure, America is now going through an imperial phase, but this one has more in common with its earlier imperial phases than with the imperial eras of Britain, Byzantium or Rome. If the assertive nationalists and the democratic imperialists have come together over Iraq, that does not mean the administration has signed up for the entire neocon agenda. And as for the foreign-policy pundits, in time they will move on to a new idea.

That does not mean Mr Bush is wrong to think that democracy is the best hope for the world, though it will surely have to take different forms in different places. He is right. But he is also right in disavowing any imperial intentions. America will have to promote its aims some other way, probably by leading

multilateral action. Empire is simply not the American way. If the United States has to intervene in places like Afghanistan and Iraq, and then stay on, it will not enjoy the experience. Running the place, it will discover, is nasty and brutish, so it had better also be short. Good or bad, that is not what most people mean by an imperium.

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California

The morning after

Aug 14th 2003 | WASHINGTON, DC
From The Economist print edition

AFP

Arnie's entry has sent California wild. Now to sober up a little, if possible

Get article background

FIRST came the frenzy. Arnie making his announcement to a boisterous crowd on Jay Leno's “Tonight Show”. Arnie filing his papers (with Arianna Huffington knocking over a nest of microphones in her desperation to get into the picture). Arnie on the covers of *Time* and *Newsweek*.

Now comes the serious bit. Arnold Schwarzenegger is undoubtedly the front-runner in the California governor's race: 42% of registered voters say there is a “good” or “very good” chance they will vote for him. His choice of Warren Buffett, a celebrated investment guru, as his chief economic adviser looks like a master-stroke. But the Democrats will do everything in their power to dull his lustre, and plenty of mainstream voters, too, may have second thoughts. Mr Schwarzenegger has three big hurdles to leap before he can make the move from Pacific Palisades to dull-as-ditchwater Sacramento: the recall vote itself, Cruz Bustamante, and his fellow Republicans.

The Gallup poll says that 64% of registered voters want to recall Gray Davis, but that figure may not last. Besides, for all his faults, the governor is an experienced politician with a menagerie of sharp-clawed advisers. He also enjoys the support of most of the state's vested interests, particularly the public-sector unions. These groups will fight like hell to keep a broom-wielding actor out of Sacramento.

Mr Davis will get plenty of help from the national Democratic establishment, which is desperate to save the party from humiliation in one of its showcase states. The party will field three political superstars: Dianne Feinstein, the most respected politician in the state, Bill Clinton, a hugely popular figure, and Hillary Clinton, the great white hope of the Democratic Party for 2008. Remember that 44% of Californians regard themselves as Democrats. Mr Clinton won the state twice by 13%, and even the lacklustre Al Gore won by 11% despite spending nothing there.

So Mr Davis, unloved though he is, cannot be written off quite yet. And what happens if he is recalled? The Democrats have a useful fall-back candidate in Cruz Bustamante, the current lieutenant-governor. A week ago it looked as if the party was falling apart, with several would-be candidates prepared to divide the vote. More by luck than calculation, they have ended up with just one replacement candidate.

Mr Bustamante is clearly in a difficult position—and not just because he looks so much like Danny DeVito in “Twins”. As a member of the Democratic establishment, he has no choice but to campaign simultaneously against the recall and in favour of himself. In the latest Gallup poll, only 22% of registered voters say there is a good or very good chance that they will vote for him. He is also far from being a first-division Latino politician. A dull dog and poor speaker, he has risen to be best-chance Democrat largely by being in the right place at the right time.

Still, Mr Bustamante has some notable strengths. His ethnicity is a huge advantage in a state that is 32% Latino. Admittedly, since many Latinos are either young or illegal, they make up only around 15% of the voting population. But Mr Bustamante's personal story is a compelling one: he rose from humble origins, the son of an agricultural worker in the Central Valley, to become the first Latino speaker of the state Assembly and the first Latino for a century to hold statewide office.

Mr Bustamante would also get a boost if Mr Davis were to resign before the recall. The recall election would probably go ahead (though the legal position is a little unclear). But it is possible that, having taken Mr Davis's scalp, the voters would be less keen on the whole procedure.

Arnie's flaws

For his part, Mr Schwarzenegger brings some serious weaknesses to his campaign. The most obvious is his lack of political experience. The former Mr Universe is not quite a political virgin: last year he led a tear-jerking campaign to extend after-school programmes. But so far he has been suspiciously reluctant to talk about his plans for California. In particular, he needs to persuade voters that he can square his passion for social programmes with the need to balance the budget.

Mr Schwarzenegger suffers from some additional problems. Most obviously, he has a couple of senior Republicans threatening his right flank: Tom McClintock, a state senator, and Bill Simon, the man who won 42% of the vote against Gray Davis in 2002 and who still has strong support among the Republican grass-roots.

Some Republican stalwarts are also raising doubts about Mr Schwarzenegger's Republican credentials (the man even believes in limited gun control!). They are particularly incensed that he is compared to Ronald Reagan. Mr Reagan had spent decades in politics before throwing his hat into the ring in 1966, and had both a hard core of principles and a collection of loyal supporters. The very vagueness of Mr Schwarzenegger's ideological and political base will make it harder to deal with the doubts about his fitness for high office.

This problem, however, may not prove serious. Neither Mr Simon nor Mr McClintock has much momentum at the moment (and Mr McClintock is very short of money). Mr Schwarzenegger may even be able to turn the presence of hard-core Republicans in the race to his advantage, presenting himself as a moderate centrist.

There is a more substantial difficulty, though: a Racial Privacy Initiative (Proposition 54) that bans public agencies from collecting racial data about Californians. This proposition reminds many Californians of earlier racially-charged initiatives. (The man behind it, Ward Connerly, was behind the initiative that banned affirmative action.) It is also a knife poised at the heart of the state's gigantic racial-preference industry. So racial minorities, civil-rights activists and public-sector workers can be expected to turn out in force to defeat the proposition, boosting both Mr Davis and Mr Bustamante in the process.

Mr Schwarzenegger's final problem is self-inflicted: his choice of Pete Wilson as co-chairman of his campaign. As the most recent Republican governor of the state, Mr Wilson brings a certain amount of heft. But he also brings bad memories. His decision to link his re-election campaign for governor in 1994 to Proposition 187, which denied rights to illegal immigrants, drove a wedge between Latinos and the Republican Party. The fact that Mr Schwarzenegger, himself an immigrant, has now admitted that he voted for 187 can only increase his problems with minorities.

The stakes in the current governor's race are enormous, both locally and nationally. A Schwarzenegger victory could regalvanise a Californian Republican Party that has drifted to the fringes in the past decade. It could also force the Democrats, come 2004, to fight hard to defend a state they would like to take for granted.

The smart money is still on Mr Schwarzenegger. Party loyalties are weak in California. People are

thoroughly fed up with the political establishment. And the flood of free media support that is coming his way will help hugely. But the Democrats are after him with a vengeance. The California recall is many things—three-ring circus, low farce and populist rebellion. But one thing it is not is a cake-walk.

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The rest of the field

Alphabet soup

Aug 14th 2003 | LOS ANGELES
From The Economist print edition

A very confusing ballot indeed

AFP

Mary sets out her stall

OF THE other 134 Californians now certified to run for the governor's job, not all are as vague about what they would do as Arnold Schwarzenegger. Larry Flynt, the publisher of *Hustler* magazine, would increase the number of slot machines in casinos and tax them to replenish the state's coffers. Mary Carey, a porn star, admits to not having thought much about global warming, but concludes that people will just have to wear fewer clothes. Gary Coleman, a former child actor, is playing the honesty card by admitting that his candidacy is a publicity stunt. For Angelyne, silicone-padded, pink-clouded queen of billboards, it is time to bring more colour into the governor's mansion, after Gray (Davis) and (Jerry) Brown.

At this point the smiles fade. California's counties, as well as having to pay most of the $66m the election is expected to cost, have precious little time to organise it. The rather inefficient old punch-card voting machines, which were being phased out, will be used again, since many counties are not yet ready for the new electronic voting. And many of the usual polling stations will not be available on October 7th.

The sheer number of candidates is another challenge. Some counties are trying to fit all the names on to one voting card; others will hand out a whole deck of them. Printers are panicking about deadlines, and the fact that ballot papers have to be produced in seven languages. The candidates' electoral blurbs, which have to be mailed to voters before the election, are fast growing into the size of a telephone book.

And election day itself could be a waiting-line hell, as voters labour their way through an almost endless list of names arranged in random fashion. As well as redrawing the political rules, California is also rearranging the alphabet. In 1975, the state realised that using the ordinary ABC alphabetical order gave an advantage to those on top of the list, and therefore declared the practice unconstitutional. Now, before each election, a lottery chooses a new, non-ABC sequence in which the names have to appear. To add to the complication, the order of candidates will be different in each electoral district, since the top name in the first district will move to the last position in the second, and so on. Valium, anyone?

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Politics and unemployment

Lost jobs, lost votes?

Aug 14th 2003 | WASHINGTON, DC
From The Economist print edition

The misery index rears its head

NEVER mind the French-style, month-long holiday: George Bush wants folk to know that he has work on his mind, specifically the lack of it for a growing number of Americans. He called his economic team, including the treasury secretary, John Snow, to his Texas ranch this week to show his concern about the economy.

No doubt mindful of his father's defeat in 1992, after he had failed to heed the voters' economic woes, the younger Mr Bush hopes to heal, not just feel, their pain. He has more time than his father, who had to bid for re-election just 18 months after the end of the 1990-91 recession. The latest recession is reckoned to have ended in November 2001, three years before next year's re-election vote—plenty of time to turn unemployment, now at 6.2%, around.

Or maybe not. Economic rebounds are slow to catch the country's attention. By election day 1992 total employment had nearly stabilised, but the voters hardly noticed. And the present economic “recovery”, in which payrolls continue to decline, is in fact pretty limp.

Astonishingly, the Democratic candidates have only just seized on this. But now they are avidly reciting the litany of economic woes. When seven Democratic hopefuls addressed a metal workers' union meeting in Pennsylvania, a key battleground state and one rich in blue-collar votes, they briskly summed up their view of the Bush economy: the highest unemployment rates in a decade; discouraged workers dropping out of the labour force; more than 3m jobs lost since January 2001.

In the face of Mr Bush's relatively strong popularity, these woes may provide solid hope for the Democrats. Much of the unemployment is concentrated in manufacturing, especially in key states such as Michigan, Ohio, Illinois and Pennsylvania. An even bigger problem for Mr Bush is the Democrats' appeal to the Clinton years, with their soaring incomes, low unemployment and growing job opportunities for blacks and Latinos. Even if it works, Mr Bush's economic-recovery plan will never live up to that recent past.

For a number of reasons, though, Mr Bush may be able to ride out the storm. Despite the attempts of political scientists to reduce elections to a simple formula based on economic well-being (remember the misery index?), that relationship has lately broken down. In 2000, for example, economic indicators would have predicted a Gore landslide. Three years later, amid the continuing threat of terrorism and the aftermath of war, most voters have more on their minds than the plight of the unemployed. And the unemployed themselves are less likely to vote than people in work.

The Democrats are failing to make the most of their good economic hand. Most of their remedies for the economy involve repealing the Bush tax cuts at a time when many American families are quite content with their child-tax-credit cheques of up to $400. Howard Dean, currently the Democratic front-runner, likes to talk about cutting the deficit and restoring fiscal responsibility, throwing aside six decades of Keynesian thinking on how to stimulate a sluggish economy. And almost all prefer to pander to class politics, with increased taxes for the rich. One of the most radical, Dennis Kucinich, wants to cancel NAFTA and close down the WTO.

Tax cuts or not, perhaps the best jobs policy comes from neither Mr Bush nor the Democrats, but from Mr Snow. By talking down the dollar and making America's exports more attractive in world markets, the treasury secretary may do more to boost jobs in the battleground states—and Mr Bush's prospects of re-election—than anyone. Add some eager protectionism, the sort that boosted steel tariffs last year, and the metal-bashers should be feeling bullish these days. Karl Rove, the president's top adviser, is all too

willing to throw aside economic principle to win an election.

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Environmental policy

Blowing in the wind

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George Bush names a friend from the west to the EPA

THIS week George Bush, breaking out of Crawford, took a brief tour of scenic spots in the west. He went to tout his Healthy Forests initiative, a controversial plan to encourage logging companies to thin protected forests on the theory that this will reduce the risk of fire. But he also took the chance to announce that Michael Leavitt is his choice to head the Environmental Protection Agency (EPA), the job from which Christine Todd Whitman resigned so unhappily in June. Now all he has to do is persuade the Senate, once it reconvenes, to confirm him.

That could turn out to be messy. Like Mrs Whitman, the new man is a Republican governor, but that is where the similarity ends. She was a moderate from crowded New Jersey, an industrial state on the east coast—a part of the country typically clamouring for stronger federal curbs on air pollution. Mr Leavitt is a conservative from largely empty Utah, with an unimpressive record on greenery and a deep suspicion, common in the west, of federal intervention in states' affairs.

Such a combination irks those, such as David Doniger of the Natural Resources Defence Council, who see federal command-and-control regulations as essential to preserving the environment. His outfit, together with other big environmental groups, immediately denounced Mr Leavitt as unsuitable. That may be unfair. Command-and-control laws such as the Clean Air Act have undoubtedly done much to improve America's air and water. But this dirigiste approach may not be right for tackling tomorrow's costlier, more complex environmental problems. And when it has not been busy with shameless giveaways to cronies in energy, mining and logging, the Bush administration has argued for sensible reforms such as cost/benefit analysis and emissions-trading.

Such reforms need not be ungreen. The Office of Management and Budget, a powerful arm of the White House, recently pushed the EPA to toughen its rules on diesel emissions when a study showed that the health benefits of higher standards outweighed the costs. Jim Connaughton, the head of the White House Council on Environmental Quality, points with pride to Mr Bush's Clear Skies proposal (languishing in Congress), which would use both mandatory targets and market-based mechanisms, such as emissions-trading, to cut power-plant emissions of sulphur dioxide, nitrogen oxide and mercury.

The most glaring omission from the list is carbon dioxide, which even the managers of some coal-fired utilities think should not be ignored. With that in mind, Senators Joe Lieberman and John McCain plan to introduce a bill this autumn that would impose an economy-wide “cap and trade” scheme for greenhouse gases.

Though this probably will not pass, it might at least have spurred a serious debate—were not an election looming. Since it is, the usually sober Mr Lieberman has wildly attacked the president for having “the worst environmental record in history”. Bruce Babbitt, who was Bill Clinton's secretary of the interior, explains that Democrats see the environment as one of Mr Bush's weakest points. Mr Babbitt, Carol Browner (Mr Clinton's EPA boss) and other high-up Democrats are about to launch Environment 2004, a political action committee that will direct money from green voters across America to grass-roots Democratic efforts in the handful of states where the two parties are close.

All this explains why Mr Leavitt's confirmation hearings are more likely to be used to pillory Mr Bush than to conduct a serious debate about environmental policy. Maybe that is just as well. After all, Mr Leavitt will have to get used to defending his boss's policies. And he has one advantage over the hapless, marginalised Mrs Whitman: closeness to Mr Bush. The president praised him this week as “a trusted friend” who rejected “the old ways of command and control from above”—except, presumably, when those commands and controls come from the White House.

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Charitable giving

Street aid

Aug 14th 2003 | SAN FRANCISCO
From The Economist print edition

Just when you thought you'd found a space...

Seattle Country Council

This is not a meter

“THE AVE”, otherwise known as University Way, was designed in the 1890s as the second main street for Seattle. By the mid-1990s the strip, which runs past the University of Washington, was looking decidedly run-down, and was overrun with beggars. But in recent months the city has been lavishing $9m on trees, kiosks, a bronze gateway, benches—and, from August 9th, bright green “giving meters”, parking meters that have been adapted to take change from passers-by.

These meters, their inventors believe, will encourage donors who are reluctant to put their dimes into a paper cup. The cash will be used to pay homeless young people for taking part in community projects, such as mural painting, as well as for education and job-training programmes. “This is not a parking meter,” say the signs. “This is a chance for new beginnings.”

Some of the homeless of The Ave, and some of their advocates, are not sure they believe that. They do not welcome a device that would discourage them from panhandling, or “spare changing”. The city's manager of the department of neighbourhoods has spent weeks assuring them that the meters are just a way to draw the public's attention to the homeless and the services that help them. But Seattle's mayor, Greg Nickels, has said publicly that discouraging begging is what they are for.

Even if that is true, they may not help much. In Vancouver, British Columbia, where 16 such meters have been in place for a couple of years, each one generated a mere C$425 ($271) last year for the Union Gospel Mission's programme for feeding homeless young people. Given the number of homeless young people on The Ave, each meter would provide them with no more than a few dollars a year. For the moment, it is much more effective just to go round hopefully with that Starbucks cup.

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Arms smuggling

Stingers and a sting

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A minor triumph for the security services, but a real threat

THE arrest of Hemant Lakhani seemed to have everything. A shadowy British arms dealer; rumours of a plot to blow up Air Force One; co-operation between old cold-war enemies; a dramatic bust. On closer inspection, it turns out not to have been quite such a Bondean cliff-hanger. Mr Lakhani was arrested in New Jersey on August 12th, after an 18-month investigation. He had bought what he thought was a shoulder-launched surface-to-air missile in Russia—but it was really a dud, foisted on him by Russian agents, who had infiltrated his purchase. The Somali terrorist to whom he hoped to sell it in America (with another 50 to follow), and whom he thought would use it to shoot down a commercial plane, was working with the FBI. No actual terrorists were involved.

All the same, the co-operation between the British, American and Russian security services that ensnared him is encouraging. It is a boon that Mr Lakhani—a repeat offender, according to the FBI, and avowedly sympathetic to al-Qaeda—is out of circulation. Two other men, who were helping him handle the cash, have also been detained. The investigation in Russia is said to be continuing. And the case underlines the real risk that terrorists may again try to shoot down a plane with the sort of missile involved in the sting.

Along with other deadly hardware, shoulder-launched missiles seeped out of ramshackle armouries after the dissolution of the Soviet Union, and on to the black market. Similar American-made “Stinger” missiles, which were handed out to Afghan *mujahideen* during the 1980s, are also in circulation. Portable, fairly easy to operate, and with long ranges, they are designed to home in on the hot engines of military aircraft, but have been used to attack civilian ones in Africa and elsewhere.

All this makes them attractive weapons for terrorists: al-Qaeda and others are thought to have acquired them. Last year they were used in botched attempts to shoot down an Israeli aircraft in Kenya and an American military plane in Saudi Arabia. Al-Qaeda is notoriously persistent in its methods, and intelligence reports may well be correct to suggest that similar attempts are brewing.

Clamour is growing in America for more to be done about the threat. American and other military planes (and, possibly, some Israeli commercial aircraft) are equipped with devices to deflect such missiles. These work either by confusing the incoming missile by throwing out other heat sources, or by jamming its guidance system. Mr Lakhani's missile, known as an Igla, is sophisticated enough to overcome some of these measures; other models aren't, as is shown by the failure of recent attacks on American planes in Iraq.

But the Bush administration is resisting pressure to install such kit in America's commercial fleet. It would be costly (up to $10 billion), would take a long time to fit, and may be unreliable and even dangerous for people on the ground. A system based on the ground itself would be better, but it does not exist yet. So the administration's answer, thus far, has been better security and surveillance at and around runways, at home and abroad: American experts have been despatched to inspect foreign airports, too. But aircraft remain extremely vulnerable. Hence the decision by British Airways on August 13th, on evidence of a “serious” terrorist threat, to suspend all flights to Saudi Arabia.

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Lexington

Not the way to do it

Aug 14th 2003
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America's politics looks more and more like a Punch and Judy show

OF ALL George Bush's promises in the 2000 election, his pledge to change the tone of politics has proved to be the emptiest. Today politics is as acrimonious as it has ever been. Rank-and-file Democrats regard Mr Bush as the spawn of Satan. Many congressmen will barely speak to each other. The Senate Judiciary Committee is paralysed by Democratic filibusters.

Partisan battles are raging across the country. California's Republicans are bent on recalling a governor just nine months after his election. Texas's Republicans are trying to redraw the boundaries of congressional districts a mere two years after the last redistricting. The Democrats have responded by heading over the state line to deny the Republicans the quorum they need to pass laws, and are now in their third week of exile in New Mexico.

Everywhere, politicians have taken to using weapons of last resort at the first opportunity. Once upon a time, politicians talked of impeaching a president only in the direst circumstances: but Bob Graham, a Florida senator and Democratic presidential candidate, has mentioned Mr Bush's name in this regard at the merest whiff of a problem. Once upon a time, redistricting happened only once a decade: but ever since the Colorado Republicans engaged in re-redistricting to boost the party's congressional representation, other legislatures have started to follow suit. As Ron Brownstein of the *Los Angeles Times* has lamented, “The boundaries of civilised behaviour in the political world are crumbling.”

Why is the political mood so over-heated? Some people inevitably blame Mr Bush. They argue that the closeness of the 2000 election put an onus on the “accidental president” to govern from the centre—and that September 11th gave him a golden opportunity to unify the country behind common values. But Mr Bush first over-interpreted his mandate by governing as a tax-cutting conservative, and then wounded the post-September 11th unity by embarking on a war of choice with Iraq.

Mr Bush is undoubtedly a polarising figure: almost a third of voters say they won't vote for him under any circumstances, whereas about the same proportion say they will vote for him come what may. Yet his partisan effect is more a symptom than a cause of deeper problems with American democracy.

The first thing driving Americans apart is the fact that the political parties are so evenly balanced. A slight shift in any direction can tilt the equilibrium of power. The Texan Republicans are hell-bent on redistricting because they have a chance of expanding their party's slim majority in Congress. The

Democrats love filibustering because they think that a few more conservative judges will tilt the balance of the entire judicial branch.

The second divisive factor is the culture war. The doughtiest activists are culture-warriors who think that they are engaged in a struggle for the soul of the republic. If you regard abortion as a fundamental human right, you cannot compromise with people who regard it as murder. If you regard heterosexual marriage as a godly institution, you cannot compromise with people who regard homosexual marriage as a natural right.

Getting their own back

All this is made even worse by the cycle of revenge. The Democrats want to get their own back for the 2000 election, the impeachment of Bill Clinton and the Gingrichian revolution. The Republicans want to get theirs back for Mr Clinton's Houdini act and the savagings of Robert Bork and Clarence Thomas at the hearings for their Supreme Court nominations.

Nowhere illustrates the cycle of revenge, or the damage it does, better than California. The Democrats relentlessly marginalised the Republicans by redistricting away their seats and demonising them as wild-eyed extremists. In the 2002 election Gray Davis broke an unwritten rule of politics by trying to pick his opponent, spending millions of dollars to rubbish the candidate he most feared, Richard Riordan, during the Republican primary. No wonder the Republicans seized on the recall to reap their revenge on the loathed Mr Davis.

The final reason for all this partisanship is perhaps the most distasteful: the industry of political consultants who get rich by running elections and finding ever more ingenious weapons to destroy their opponents. The smart thinking among professional politicos these days is that there is much more to be gained from whipping up the base than from reaching out to independents. Howard Dean has made all the running in the Democratic primary by venting the party's anger at George Bush, and could well continue this tactic in the general election. Some White House political operatives believe that the role of independents in elections is over-rated: the number of “real” independents—that is, people whose votes are really up for grabs rather than those who profess independence but usually vote along partisan lines—may be as low as 7% of the electorate.

All this partisanship is dismal news for American democracy. The sight of the unloved Mr Davis being roasted on a spit is certainly producing an upsurge of interest in politics. And people who did not give two hoots about redistricting cannot help taking notice of the Democratic desperadoes fleeing the Lone Star State, pursued by the Texas Rangers. But this is politics as freak-show rather than as deliberative democracy.

The growing nastiness of American politics is also undermining popular faith in government. How can intelligent people watch the “We're right, you're wrong” blather on the talk-shows without losing interest in public debate? And how can they watch the cynical gerrymandering that is going on in Texas without concluding that democracy is being degraded?

America is currently engaged in a bold experiment to bring democracy to the Middle East. As it does so, it needs to pay a little more attention to tending the flame of democracy back home.

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Social policy in Brazil

Targeting the poor

Aug 14th 2003 | MACEIÓ
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AFP

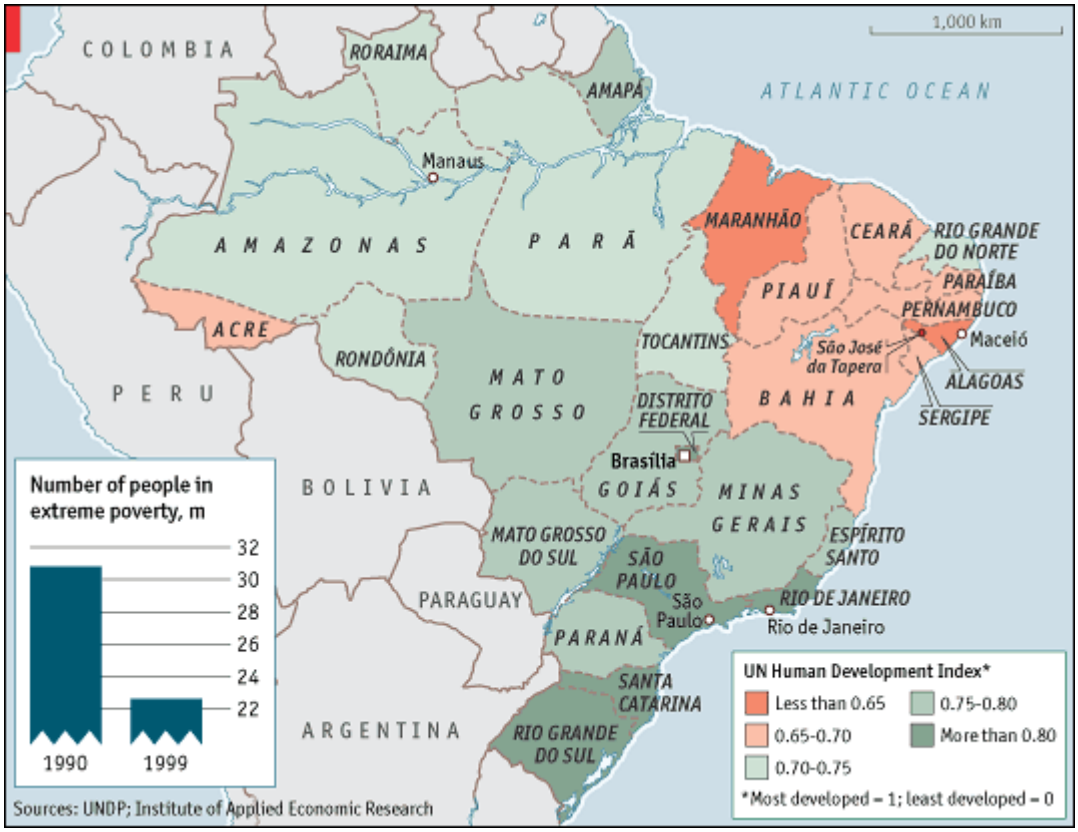
Lula's government has made a curiously disappointing start to tackling poverty. That may be about to change

Get article background

FEW of Brazil's states are as poor as Alagoas, in the north-east. Odd then that in last year's presidential election it was the only state not won by Luiz Inácio Lula da Silva, who stirred the downtrodden because he was once one of them. Vanquishing poverty and inequality is supposed to be the strong suit of President da Silva's Workers' Party (PT), which likes to denounce the previous government as heartlessly neo-liberal. Yet seven months after Lula took office, in Alagoas people question whether his anti-poverty initiatives will live up to those of his predecessor, Fernando Henrique Cardoso, whose government was the first to have "focused on the poor," says Arnóbio Cavalcanti, Alagoas's economic-development secretary.

For a party dedicated to social justice, in government the Workers' Party has been strangely wobbly in pursuing it. Its *Fome Zero* (zero hunger) programme captured the imagination in Brazil and outside, but is damned by many experts as fuzzy and outmoded. It sowed bureaucratic confusion by creating extra ministries to tackle social problems (one for hunger and another for social assistance). Left-wingers in the PT accuse Lula of pandering to financial markets with tight budgets while neglecting the poor. They are squabbling with fiscal hawks who want to redirect social spending to the poor rather than expand an already large welfare state.

The muddle may soon end. In the next few weeks, Lula is expected to relaunch his government's anti-poverty drive. Half-a-dozen programmes that transfer money to the poor are to be combined, or at least co-ordinated. Their reach and value is to increase and they are to be run more efficiently. This bureaucratic fix may bring back a familiar model, a souped-up version of the one so popular in Alagoas. But the results could be striking. "This may be the greatest experiment in history" by a big democracy with economic problems to address poverty without making these problems worse, says Vinod Thomas, who heads the World Bank office in Brazil.



Brazil does not yet have an official poverty line. Experts wrangle over the scale and intensity of poverty. They agree that it dropped sharply in the mid-1990s, when Mr Cardoso finally tamed inflation, and has budged little since then (see chart). Ana Lucia Saboia of IBGE, Brazil's statistical institute, estimates that a “hard core” of 40m people, nearly a quarter of the population, live on less than half the minimum wage of 240 *reais* ($80) a month. The government-linked Institute of Applied Economic Research puts those in extreme poverty (lacking the money to feed themselves properly) at 23m. By one estimate, closing the “poverty gap” (the amount needed to lift the poor out of poverty) would cost just 1.6% of Brazil's GDP (though there is more to ending poverty than raising incomes).

More than half the poor and even more of the indigent live in Brazil's north-east. Others are in the big cities, to which many north-easterners flocked in the last half-century. Blacks, women and the young are over-represented. Then there is what Marcio Pochmann, of the São Paulo city government, calls the “new poverty”, of educated whites thrown out of work by freer trade, privatisation and economic change. In greater São Paulo, unemployment has risen from 180,000 in 1989 to 1.3m today. Most are not hungry, but they are angry.

It has not helped that economic growth over the past five years has been disappointing, nor that income in Brazil is distributed more unequally than almost anywhere else in the world. In practice, growth and redistribution will both have to play a role if poverty is to fall.

The state already spends an ample 16% of GDP on social programmes at the federal level alone. But little of this reaches the poor. Pensions consume two-thirds of social spending; health and education, universal programmes that offer little extra benefit to the poor, account for much of the rest. Social assistance specifically for the poor accounts for just 0.4% of GDP.

Income transfers

Mr Cardoso shifted social spending towards the poor, in two main ways. The first involved programmes to transfer income directly to poor families; in exchange, they agreed to other steps, such as keeping their children at school. The second was to exploit information technology to identify the needy and make sure resources reached them. The aim was to avoid the twin plagues of welfare: handouts that encourage dependency, and the hijacking of funds by corrupt functionaries or vote-grubbing politicians. Both solutions are likely to figure large in Lula's new plan.

The income-transfer programmes link up to form a rudimentary safety net. *Bolsa-Escola*, a programme the PT championed at local level, gives up to 45 *reais* a month to families that send their children to

school. *Bolsa-Alimentação* goes to families who bring their pre-school children regularly to the local health clinic. Beneficiaries collect their money from the bank through electronic cards. Not only does that reduce the scope for corruption or political favouritism, but the cards hold a wealth of information that can be used for designing and targeting programmes.

Projeto Alvorada—as obscure as *Fome Zero* is famous—was the Cardoso government's way of funnelling the bulk of these benefits to the poorest districts, along with investment in public services such as sanitation and schools. It invested some 3 billion *reais* in sanitation over two years and beefed up income transfer: *Bolsa-Escola* now reaches some 5m families. The criteria were apolitical: districts qualified by having low levels of development as measured by the UN's human development indicator (see map). States with no districts below the threshold, such as Rio de Janeiro, were simply left out.

Alagoas was an enthusiastic recipient. São José da Tapera, a rural district in the state's arid interior, was ranked Brazil's tenth most miserable in 1998. *Alvorada* transformed it, says the district's finance secretary, Jarbas Pereira Ricardo, who is a member of Mr Cardoso's party. Running water used to appear briefly in São José once a fortnight; after an investment of 1.1m *reais*, it is now on all the time. Teachers there used to earn half the minimum salary, and few had themselves been educated beyond primary level. Now, thanks to a federal programme called Fundef, the average salary for teachers in São José is nearly twice the minimum wage and most of them are university graduates.

Back to the future

Lula's election cast São José into limbo. The government has stopped one drought-related benefit, for example, but has been slow to shift beneficiaries to its replacement, complains Mr Ricardo. Austerity and confusion share the blame. *Fome Zero*, which combines emergency food aid with “structural measures” such as building wells in dry communities, does not add up to a full-fledged anti-poverty programme. Lula tried to “reinvent the wheel, which was going in the right direction,” says Marcelo Neri, head of social policy at the Fundação Getúlio Vargas, a business school.

The government is coming to the conclusion that an upgrade is enough. It plans a scheme to co-ordinate the main income-support programmes for the poor, including the most visible part of *Fome Zero*, a card that gives poor families money to buy food. Their beneficiaries would be listed in a single register. This consolidation echoes Mr Cardoso's approach. It will add features that the PT has pioneered in local government, such as a bigger role for local groups in identifying beneficiaries and monitoring the programmes.

These are likely to become more generous. José Graziano, the food security minister, says the government wants to boost spending on income support next year, by up to 1.5 billion *reais*, from this year's figure of less than 4 billion *reais*. The goal is to fulfil Lula's campaign promise to end hunger by the end of his term. If he steals Mr Cardoso's methods, no one will blame him.

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Canada's prime minister

Museum piece

Aug 14th 2003 | OTTAWA
From The Economist print edition

Jean Chrétien, historical monument

Get article background

POLITICIANS, more than most mortals, like to be remembered by something tangible and preferably grandiose. Canadian prime ministers are no exception—or at least not Liberal ones. Lester Pearson gave his country its maple-leaf flag, and built Ottawa's National Arts Centre, opened in 1969. Pierre Trudeau added a new home for the National Gallery, and the Canadian Museum of Civilisation.

So how to remember Jean Chrétien, who plans to step down in February after more than ten years as prime minister and 40 years in parliament? Ottawa already has some 15 museums, celebrating everything from aircraft to skis. Instead, officials came up with the idea of building a mile-long Washington-style boulevard up to the Parliament Buildings. But this would have involved demolishing several historic buildings, and was derided by architects and many others. So the scheme has been abbreviated to a plaza, two blocks long, near Parliament.

Another notion was to associate Mr Chrétien's name with a cultural project already under way. One contender was the new national portrait gallery being housed in the former American embassy, opposite Parliament. But it is too modest. So how about the Canadian War Museum? It is due to open in 2005, Mr Chrétien turned the first earth, and the federal government has contributed C$84m ($61m). Apart from its escalating cost, there is another problem: it is hardly the most suitable memorial for a man who opposed both wars against Iraq and shrank the armed forces.

Finally, Mr Chrétien's aides have hit on the former railway station, plumb in the middle of Ottawa. It was the venue for negotiations over Canada's 1982 constitution (in which Mr Chrétien took part as justice minister) and for the signing in 1999 of the Treaty of Ottawa, banning landmines. It narrowly escaped being turned into a national Sports Hall of Fame. Instead, earlier this summer, Mr Chrétien, in an unusually eloquent speech, announced that it will become the Canadian History Centre.

That met howls of protest. Provincial museums claim to be starved of federal funds; they squealed at the estimated cost of C$100m. Mohawk leaders want museums to return ancestral bones. Museums, Mr Chrétien has found, are alive with controversy.

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Human rights in Mexico

Promise unfulfilled

Aug 14th 2003 | MEXICO CITY
From The Economist print edition

An official's sacking exposes a gap between words and deeds

Get article background

FOR a government that talks a lot about having put human rights at the top of its agenda, this has been a bad few weeks. Mexico has been on the receiving end of scathing reports from both Amnesty International and Human Rights Watch. And on August 11th, one of the architects of the new policy, Mariclaire Acosta, was sacked as deputy foreign minister for human rights and her post abolished.

AP

How many more have to die before Mexico changes?

President Vicente Fox, whose election victory in 2000 ended the sometimes brutal and always opaque rule of the Institutional Revolutionary Party (PRI), promised to tackle the root causes of human-rights abuses in Mexico. One way of doing this, championed by Jorge Castañeda, Mr Fox's first foreign minister, was to place the promotion of human rights at the centre of Mexico's foreign policy. Mr Castañeda created Ms Acosta's post, and signed Mexico up to several international human-rights accords. The hope was that this would be echoed at home, ending the routine use of torture by the police, for example. Just as Mr Fox's government began to speak out against abuses in other countries, notably Cuba, foreign organisations were invited to scrutinise Mexico.

But in January, Mr Castañeda resigned; his successor, Luis Ernesto Derbez, has dismantled many of his initiatives. “Human rights are just not on his radar screen,” Ms Acosta says of Mr Derbez. The foreign ministry says that human rights will now be handled by the deputy-minister for global affairs. Santiago Creel, the interior minister, insists that respect for human rights has become institutionalised.

Others disagree. Opponents of reform, including elements of the PRI and the old official human-rights establishment, now have the upper hand, Ms Acosta, a former human-rights activist, says. Human Rights Watch reported last month that a special prosecutor's office set up to investigate abuses by previous governments had achieved little. The official human-rights ombudsman said this week that placing human rights on the national political agenda has been “almost Mr Fox's only achievement in this field.”

Just how much Mexico has to change if it is to live up to its new international commitments was highlighted in a report this week by Amnesty International into the killing of 370 young women in or near Ciudad Juárez, on the border with the United States, over the past decade. Almost all of the victims were poor and young; many worked in the city's manufacturing plants. Many were beaten and raped before being killed, their bodies dumped in the desert.

The courts have convicted 79 people over these murders. But “in the vast majority of cases justice has

not been done," says Amnesty. It claims that local police falsified evidence and tortured suspects to extract confessions. The police dispute this—but still the killings go on, with official complicity, say campaigners.

Three weeks ago, the federal government finally got involved. It flew 300 federal police to Ciudad Juárez, and trumpeted a 40-point action plan. But Irene Khan, Amnesty's secretary-general, argues that the murders will be solved—and stopped—only if the government carries out a thorough reform of criminal justice. In human rights, as in much else, Mr Fox has promised a lot but delivered little.

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Paraguay's new president

Debtor's reckoning

Aug 14th 2003 | ASUNCIóN
From The Economist print edition

The unpaid bills of creole fascism

WHEN Nicanor Duarte Frutos is sworn in as Paraguay's new president on August 15th, the first thing he will face is a queue of creditors. Not only is the government behind on debt payments to the World Bank, but it also owes some $200m to local suppliers. Its biggest debt of all is to long-suffering Paraguayans, whose income per head is some 13.5% below its level of 1997.

Since Mr Duarte's party, the Colorados, has ruled Paraguay for 56 years, the chances of any improvement might seem slight. But Mr Duarte, a former journalist of peasant background, inspires a bit more hope than recent presidents, several of whom have been accused of corruption. He has appointed some capable technocrats.

He will have to move fast if he is to avoid presiding over a full-scale debt default. One task is to cut a new deal with the IMF. Another is to negotiate more time to repay a $400m loan from Taiwan, which bailed out Paraguay in 1999.

Mr Duarte comes from the national-socialist wing of the Colorados, which has long blocked change. The party's rule, first in dictatorship and since 1989 in democracy, has been based on a compact: in return for political loyalty, some 200,000 Paraguayans have government jobs, many of them unnecessary ones. This cosy arrangement has long been unaffordable: the government's wage bill alone comes to about 50% more than its revenues. The government has borrowed to cover the shortfall, but the gap is widening. “We have a worn-out political and economic system and an unsustainable economic crisis,” admits Enrique Riera, the mayor of Asunción, Paraguay's capital. The city, of 550,000 people, employs more than 7,000, and spends 97% of its budget on salaries.

Mr Riera, who is a close ally of Mr Duarte, argues that the Colorados' new leaders have no ties to the past, and are prepared to do the unthinkable. Last month, Mr Riera did: he sacked 850 city employees. But Mr Duarte may find it harder. Reform of the state requires the approval of a Congress in which the faction-ridden Colorados lack a majority. The new president says, with candour, that he has made no deals with “the parasitic oligarchies from my party”, and is prepared to pay the political cost of reform. If he does, he may start reducing the government's other debts.

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Afghanistan

Not a dress rehearsal

Aug 14th 2003 | CHAGHCHARAN AND KABUL
From The Economist print edition

Reuters

Without new thinking, Afghanistan will fail again

Get article background

AFGHANISTAN was not supposed to be simply a dress rehearsal for the invasion of Iraq. It was meant to be a premiere, the blueprint for how to rescue a failed state without colonising it. Apart from America's starring role, it does not much resemble Iraq. It is poor; it has no oil. It became a danger only because it was allowed to be weak, not because it was allowed to be strong. Unlike in Iraq, the locals, almost two years after the fall of the Taliban, want more American engagement, not less. And not just American: the rebuilding of Afghanistan is a shared undertaking of many nations, with a clear United Nations mandate.

In one way, though, it does resemble Iraq: the stakes are high. Failure would be dreadful for Afghanistan, which will not get a better chance to make something of itself any time soon, but also for America, which has staked much credibility on building a terror-free Islamic democracy. But failure would also be bad news for the outside world, including France and Germany, which can hardly wag fingers at America if they are complicit in Afghanistan's undoing. Will the world rise to the challenge?

Perhaps it is beginning to. On August 11th the international peacekeeping force in Kabul, known as ISAF, was placed under the strategic command of NATO. British, Turks, Dutch and Germans have all headed the force of 5,000 or so peacekeepers, which operates separately from the 12,000-strong American-led coalition force still in the country. Their troops and those of 26 other nations have done much to stabilise Kabul; the city is seamy, but also safe and booming. The cost has been high, not least in lives. In June, a suspected al-Qaeda suicide-bomb attack killed four German soldiers; in May, a plane flying Spanish peacekeepers home went down, killing 75. Canada will now assume tactical, or day-to-day, command. Its soldiers will play an important role in deterring terrorism and reducing crime in the capital. But the real peace must be won where ISAF has so far had no interest in going, outside Kabul.

Expansion of ISAF to the provinces appears to be a political non-starter. Instead will come Provincial Reconstruction Teams (PRTs)—clusters of lightly armed soldiers meant to assist rebuilding. The Americans already have several PRTs, Britain and New Zealand each have one, Germany will likely take over another in Kunduz. If all goes well, there might soon be a dozen such units around the country. PRTs have a vague mandate. They are not coalition forces, but receive air support from the coalition. They are not ISAF either, but draw on ISAF's experience. They have the advantage of being mobile and

malleable—key assets in Afghanistan. “We're reinventing the century of the Roman empire, but why not?” says one general. Still, PRTs will at best be only a catalyst. They are too small to effect much change by themselves: the 72-man British one in Mazar-i-Sharif is charged with an area the size of Scotland.

Separately from ISAF, the American-led coalition—“Operation Enduring Freedom” to initiates—has been working hard to stabilise the southern bit of Afghanistan, though it is hard to quantify its success. Neo-Taliban caught taking pot-shots are certainly mown down by Apache helicopters. But Osama bin Laden and Mullah Omar, the Taliban leader, remain unaccounted for, and the south of the country is getting more dangerous, not less. Major operations—at present including Italian alpine troops and the first recruits of the new Afghan national army—often result in coralling a few men, who may be terrorists or, just as easily, shepherds. Detainees are spirited off to the Bagram base, north of Kabul, and interrogated. Several have died there. But as major combat dies down, questions are sure to be asked about the cost-effectiveness of what the coalition is up to, given that the Americans are spending $10 billion or so a year on it, versus the half-billion being spent by ISAF.

The good news

Whether or not Afghanistan can survive comes down, in part, to one simple question: are the forces of national integration there greater than the forces of local disintegration?

Optimists say yes. They think Afghanistan is more stable than at any time in the past 24 years. Many, perhaps all, of the terrorist training camps in the country have been destroyed. A soon-to-be-released study by foreign and local aid agencies suggests most Afghans think security has improved. Incrementally, optimists say, a semblance of national government is returning. On August 13th, the government in Kabul removed the warlord Gul Agha Sherzai from his post as governor of Kandahar and stripped Ismail Khan, the powerful governor of Herat, of his other role as regional military commander. A paper decree may not worry Mr Khan much, but it, and the removal of Mr Sherzai, shows the determination of the government.

On the optimists go. Afghanistan enjoys a legitimate government, confirmed by a representative *loya jirga*. There is considerable progress in writing a constitution and organising elections for next year, with suffrage for women. The new national currency, the afghani, is widely accepted and stable. The economy grew by 28% last year, according to preliminary IMF estimates. Two million or more refugees have returned home to rebuild their lives. That—together with the remarkable absence of any ethnic separatist movements—underlines Afghans' belief in their own country. There has been no major humanitarian crisis. Donors remain committed to their promises. America has tripled its aid to $1 billion this year; it will pressure others to do the same.

And the bad

Pessimists scoff at much of this. Taking a marker pen, they score off on a map the third of the country—the south and southeast—that donors now think is too dangerous to visit. Aid workers have not recovered from the brutal execution of a Red Cross worker by neo-Taliban earlier this year. Even old hands are uneasy; for the first time they are the targets. This week, the UN suspended its road missions in the south of the country. On August 13th, a bomb in the southern province of Helmand killed at least 15 people, and some 45 more, including two local aid workers, died in an array of other bloody incidents. Taliban leaders operate in Quetta and other Pakistani cities, openly distributing weapons and propaganda. Pakistan itself is destabilising its neighbour. Its army has made incursions into Afghanistan. There have been heavy exchanges of mortar fire.

Every plan for Afghanistan made tangible reconstruction a priority. Unfortunately, there has been very little of it. No major roadbuilding projects have been completed. The Kabul to Kandahar road, engineers whisper, is being laid with pencil-thin tarmac to meet the year-end deadline personally set by George Bush; a couple of winters might wreck it.

The pessimists—they would call themselves realists—have little time for the Afghan president, Hamid Karzai. America's boy, they say, isolated and ineffectual. The real power in the provinces is with the warlords. Governors may pay lip service to Kabul but they will not give up their militias. Even if they wanted to, the disarmament process does not have the money to make it possible. The constitution will be fudged; the election delayed. Women will remain powerless.

The economy has grown, yes, but any growth looks good when starting from zero; it is still less than half the size it was in 1978. Returning refugees are struggling to make a go of it; many are drifting to slums in Kabul. To say that there is no humanitarian crisis is to miss the point. There is crisis by attrition. Most Afghans still have no access to health care. Rates of maternal and infant mortality remain among the highest in the world. Cholera and other diseases are in the ascendant. As to donors, best not to ask. Well under $1 billion of the $4.5 billion promised at the Tokyo conference last year has shown up (though, to be fair, that sum was to be spread over the next few years). Too much of what does arrive ends up going on fat salaries and snazzy cars for foreigners.

Reasons to be doubtful

It is possible to debate these points endlessly, and many in Kabul do little else. But such arguments may be irrelevant in the face of two factors which, without a much more aggressive commitment of resources, could devastate Afghanistan, no matter what the fine-print of the new constitution or the efforts of economists.

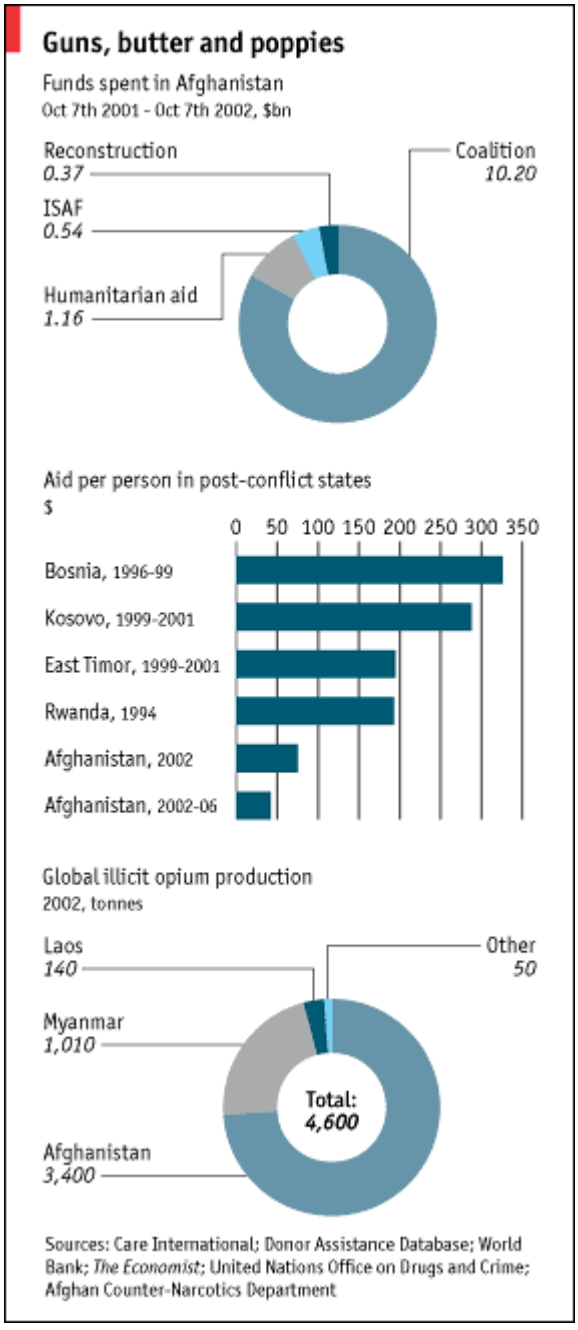
The first is water. Afghanistan is a marginal country. About 80% of Afghans depend on what they can grow. But Afghanistan lacks water and cultivatable land. Even in the halcyon 1970s, less than 5% of the land was irrigated. The war halved that. Then came the drought, seven years long in some places. Most of the livestock died, staple crops failed. In the south and south-west of the country, water-tables are dangerously low. Even with the best possible governance, that part of Afghanistan is a poor proposition. Drought was an ally of the Taliban. They could not have pushed north without picking up farmers along the way who, having lost their wheat and goats to drought, thought to earn something by shouldering a gun. Rebuilding the irrigation system would help a bit: creating reservoirs in the mountains of the central Hazarajat region could do more: both would be hugely costly.

The second worry is drugs. Three-quarters of the world's opium, and nearly all of Europe's heroin, originates in Afghanistan. Drought is now an ally of opium traders as it was of the Taliban. Pushtun herders used to move livestock around the country. Now they move opium; buying, selling, trading know-how. They use the economics of the old North Sea herring trade, locking in farmers by paying advances on next year's harvest. Afghanistan and Britain—the lead donor for counter-narcotics—say they have evidence drug money is funding terrorism in southern Afghanistan.

The view from rock bottom

The worry is that drought, drugs and insecurity could start to feed off each other. A glance at the map suggests they already do. Three of the country's five big drug producing provinces—Helmand, Uruzgan, and Kandahar—are unsafe and parched. Poppy cultivation is spreading to new areas, and with it insecurity. The nightmare is a new Colombia: a place where drug lords capture and wreck government and the economy alike.

Take Ghowr, one of the poorest and most isolated provinces in Afghanistan. It lies four days' drive west of Kabul on often impassable dirt roads. Poverty here, as in much of Afghanistan, is a constant: Ghowr has been failing since seaborne trade superseded the Silk Road.



Most of Ghowr's 3,000 mullahs are illiterate; they make a living passing out magic charms and spells. It

has only five doctors and ten foreign-aid workers, mostly from France's Médicins du Monde. Many of its 750,000 people are newly returned refugees.

They have almost nothing. The pale green steppe, folding immensely away to the horizon, is drought-ravaged. The livestock have died or been sold. Farmers—that is, almost everyone in Ghowr—have fallen deeply in debt. The most desperate have sold their daughters. The rest have planted poppies. But the hoped-for opium bonanza has not arrived. The soil was poor. Mistakes were made. A late frost—Ghowr lies at high altitude—dried the bulbs before the opium gum could be scraped off. Nearly all of the harvest was lost. So the farmers' debts are still mounting, with much of the money owed to opium traders who will insist on a new planting next year.

A recent visit to Chaghcharan coincided with the planned arrival of Mr Karzai; a welcome sign of national integration. The bazaar was festooned with Afghan flags run up by traders themselves from strips of red, green and black cloth. Ghowr's leading mullahs gathered in the mosque to prepare a list of problems Mr Karzai might like to address. Illiteracy and a lack of water topped the list. Opium was not to be mentioned. It was poison, the mullahs said, but perhaps Mr Karzai would understand people had no choice. “In other countries they use opium for enjoyment. Here they grow that their children not die,” said one sadly.

A group of women spoke secretly, too fearful to put their complaints directly to Mr Karzai. A few women now have jobs and women can walk freely across the bridge (in Taliban times women had to wade the river downstream so as not to arouse the men, they said). But not much else has changed. Perhaps only 50 women in the province can read and write. Girls still have trouble getting an education. Daughters are still regarded and spoken of as chattels, to be traded for debt or profit, or as settlement in blood feuds.

Mr Karzai was delayed. An illness, said the Americans. No available plane, said the president's office. Disappointed elders drifted back to their villages on the backs of motorbikes. The president did make it the following week. The militia paraded for him. But it was too late to see Mehman Gul, a 15-year-old girl who had been carried from a village by her father. She had been set down on the hospital floor on the day of Mr Karzai's earlier planned visit but, sadly, she died an hour or so later, of typhoid and hunger.

Shooting up

Ghowr is too marginal ever to become a big opium producer, but even so it could become dependent upon poppy cultivation and be shaped by it, like the country as a whole. Opium now accounts for perhaps a third of the Afghan economy. Last year's opium harvest of 3,400 tonnes was worth $1.2 billion in the country. By the time it is injected into veins in Edinburgh or Prague as heroin, profitably bulked out with brick dust and glucose, it is worth $25 billion.

The drug trade is becoming institutionalised. Opium is now being processed into morphine and heroin inside Afghanistan. That means a lot more money for commanders on the ground, something made apparent by the switch to ever more expensive jeeps. Democracy plays into the hands of more sophisticated narco-enriched commanders. They are already thinking about ways to buy, or muscle, a vote which will protect their opium interests in next year's election. “There's no way we can compete with the cash these guys have,” says a morose UN insider.

The Afghan government has made some progress. Poppy-growing has been declared illegal. A new policy body, the Counter-Narcotics Department, or CND, has been instituted to direct drug policy in key ministries. Its goal is a 70% eradication by 2008 and 100% by 2013. The CND is being bankrolled by the British government. But it remains woefully ill-equipped. Almost none of its 28 staff officers has any relevant experience. There is little money for communications or vehicles and nothing at all for intelligence gathering. “They're expecting results for nothing,” says Mirwais Yasini, the director. If traffickers get hauled in, trying them is another matter. The country even lacks a laboratory which can identify whether shipments seized are contraband.

If the stick is small, the carrot is smaller still. There is little money for alternatives which would allow farmers to grow viable money-earning crops such as saffron. Mr Yasini reckons a basic scheme could cost $300m over three years. Again, the outside world could be doing much more to help.

An attempt to buy out farmers last year only encouraged more areas to plant poppies, so something more radical and innovative is needed: the insertion of several hundred counter-narcotics police officers about the country, a kind of policeman's ISAF. The narco-cops would need to be ceded powers by the

Afghan government to disrupt the flow of drugs and assist in crop eradication. They would have to be supported with EU-funded initiatives such as the purchase of wheat at above market prices and money for irrigation, husbandry and rural credit schemes.

America could also play a more useful role by acknowledging and supporting the efforts of Iran—whose policy on drugs is in many ways more intelligent—and by cracking down on (rather than supporting) warlords and commanders its special forces know to be trafficking opium.

And those who played a part in the wrecking of Afghanistan have a responsibility to help put it back together. Few expect Russia to cough up for the carnage unleashed by the Soviet Union, but it could supply survey maps and geologists to help Afghanistan exploit its own natural resources. If Afghanistan could discover a legal export—gold and gemstones are possibilities—to match opium, it might yet prove the pessimists wrong.

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India and Pakistan

The right track?

Aug 14th 2003 | DELHI
From The Economist print edition

The mood music is sweeter; but hostility is just an atrocity away

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AP

They loved Laloo

AS IN any feuding family, at times there is a clamour to let bygones be bygones. Indians and Pakistanis, separated at birth 56 years ago, have in recent weeks been warmed by the memory of how much they share, rather than, as so often, chilled by the fear of another war. But so far there is more sentiment than substance to the mood of reconciliation.

The latest appeal for constructive amnesia came from Pakistan's president, Pervez Musharraf, on August 12th. “Forget Kargil,” he said, in reference to a small war in 1999, sparked by a Pakistani military adventure, at a time when he was merely the army chief, instead of combining the job, as he does now, with running the country. General Musharraf added an offer of a ceasefire, in which the two armies would stop shelling each other across the “line of control” dividing Kashmir. But three explosions in Indian Kashmir the next day were a reminder that such a ceasefire would not stop the violence.

General Musharraf was speaking in Islamabad after meeting an Indian delegation, including 34 members of Parliament, that formed part of a recent flowering of “people-to-people” diplomacy. Some of the people are unexpected. The star of the Indian team was Laloo Prasad Yadav, former chief minister of the notoriously misgoverned state of Bihar and now husband to the incumbent. He faces corruption charges, and India's Supreme Court had to order prosecutors to return his passport for the trip. But his folksy style—he champions India's lower castes—went down a treat in Pakistan, where politicians are almost invariably patrician, bearded or in uniform.

Of the bearded clerics, Fazlur Rehman has emerged as an unlikely proponent of reconciliation. He heads an alliance of six religious parties that leads Pakistan's opposition. Mr Rehman also paid a much-publicised peace-mongering trip of his own to India last month.

This flurry of “track two”—unofficial—diplomacy followed the offer in April by India's prime minister, Atal Behari Vajpayee, of the “hand of friendship” to Pakistan. This was doubly surprising: twice before Mr Vajpayee has extended his hand, only to have it bitten (once at Kargil, and once at a summit in Agra); moreover, a hard line towards Pakistan was widely seen as popular in India.

Yet the prime minister seems to have judged the public mood well. Two stories of cross-border humanitarianism have particularly warmed hearts. Last month, Noor Fatima, a two-year-old Pakistani girl, was treated to heart surgery in the Indian city of Bangalore. And this week, a 13-year-old boy, picked up in India in June after inadvertently straying across the border, was bused back to Pakistan.

The reopening of that bus route was itself evidence of improved relations. Air links, which were also severed after a terrorist attack on India's Parliament in December 2001, may also be resumed soon. Already full diplomatic relations are restored. But, these achievements aside, “track one”, or official, diplomacy is largely non-existent. There have been no ministerial, let alone summit, meetings between India and Pakistan since before the Delhi attack.

India's immediate dismissal of General Musharraf's ceasefire proposal implies official talks will have to wait. India wants any ceasefire in Kashmir tied to a halt to the cross-border infiltration of Pakistan-based

militants, which, it says, continues unabated. Its diplomats believe that, while Pakistan does want closer economic ties, General Musharraf remains hostage to Islamists and his own army. These two forces, intimately linked, will never tolerate any softening of Pakistan's claim to Kashmir, and may eventually sabotage any improvement in relations.

Pakistan's deep-rooted suspicions are the precise mirror image: that all Mr Vajpayee's friendly rhetoric is empty, designed to fob Pakistan off without engaging it on the core of the dispute, Kashmir. As violence continues there, an abrupt end to the current friendly atmosphere could occur at any moment.

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Japan

Taking a chance

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A leisurely boost to the economy

Get article background

ALL investments are gambles, but the converse is not true. That is why gambling, one of the few bright sectors in Japan's economy of late, has hardly been a cause for solace. A study by the Japan Productivity Centre for Socio-Economic Development has found that leisure spending grew last year for the first time for six years, but attributed most of the slim 0.5% increase to a rise in spending on pachinko and slot machines. Most other forms of leisure spending, such as sports and tourism, continued to fall.

However, Japanese businesses are also showing signs of taking chances. This is more encouraging, since companies tend to risk their money on new capital equipment when confidence rises. On August 8th it was reported that machinery orders continued to rise sharply in June, an increase of 17.5% from May. That amounts to an 18.3% year-on-year rise in machinery orders in the second quarter. Overall, the government announced on August 12th, real GDP rose at an annual rate of 2.3% in the three months to June, the sixth straight quarter of economic growth.

Unsurprisingly, given Japan's weak domestic economy and a rebound in Asian demand since the retreat of the SARS outbreak, the biggest jump in machinery orders was in equipment destined for overseas. Such orders rose by 44.3% month-on-month in June, marking the third straight double-digit monthly rise. Even more encouraging, domestic orders are rising, though less impressively than for overseas shipments. In the private sector, excluding ships and power, machinery orders were up 2.4% from May to June. There are signs that this trend will continue in the current quarter. Morgan Stanley, an investment bank, reckons that, overall, real capital spending could rise for the sixth quarter in a row.

Japan has enjoyed brief fillips to the economy several times during the past 13 years of stagnation. But without a workable recovery plan, high debts and failing confidence have dampened the bounces. Japan's leaders still seem more interested in boosting exports than in reviving faith in the home economy. In the second quarter, Japan sold nearly $40 billion worth of yen to keep the Japanese currency from rising. Betting on exports alone is a poor gamble.

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Liberia

Goodbye to all that?

Aug 14th 2003 | MONROVIA
From The Economist print edition

AP

Charles Taylor, Liberia's brutal president, has gone. Peace might, conceivably, return to his devastated homeland

Get article background

PERCHED on a velvet throne under a generator-powered chandelier, Charles Taylor bade farewell to the country he has done more than anyone else to wreck. During a sweaty, cant-filled ceremony on August 11th, Mr Taylor repeatedly drew parallels between himself and Jesus Christ. “I would be the sacrificial lamb,” he thundered. He was stepping down as president of Liberia, he said, in the interest of peace, and because he was being forced to by the Americans. “God willing,” he added, “I will be back.”

Most Liberians hope not. A clutch of supporters wept as Mr Taylor and his well-fed wife, Jewel, boarded a jet for Nigeria, where they have been granted sanctuary and a sumptuous villa. But back in Monrovia, Liberia's shattered capital, far larger crowds breathed a collective sigh of relief. There was little sign of joy, however. Mr Taylor's soldiers, many of them drug-addled teenagers sporting guns, wigs and lipstick, were squared off against rebels across a mid-city front line, as Nigerian peacekeepers started nervous street patrols. Famished townsfolk have already eaten their neighbours' dogs and are reduced to scrounging for snails.

Such is Mr Taylor's legacy. He started a civil war in 1989, with the stated aim of overthrowing the dictator Samuel Doe. Doe was overthrown the next year, and tortured to death on the orders of Prince Johnson, a former ally of Mr Taylor's. (The death was captured on videotape by a Palestinian journalist, who had been filming a hostile documentary about Doe, whose regime recognised Israel. The tape is still commercially available.) Despite Doe's demise, the war continued, as rival warlords fought for control.

Eventually, Mr Taylor emerged on top. He was elected president of Liberia in 1997, having made it clear that, if voters snubbed him, he would go back to war. “He killed my ma, he killed my pa, I'll vote for him,” went his campaign song. Although Mr Taylor's regime was crooked and thuggish, life grew slightly better in the first years of his presidency (see chart), mainly because people could at least step outside without being shot.

Mr Taylor angered his neighbours, however, by sponsoring revolts in Sierra Leone, Côte d'Ivoire and Guinea. He is accused of profiting from the theft of Sierra Leonean diamonds, and has been indicted in Sierra Leone for alleged war crimes. His attempts to get the charges dropped before he went into exile were rebuffed.

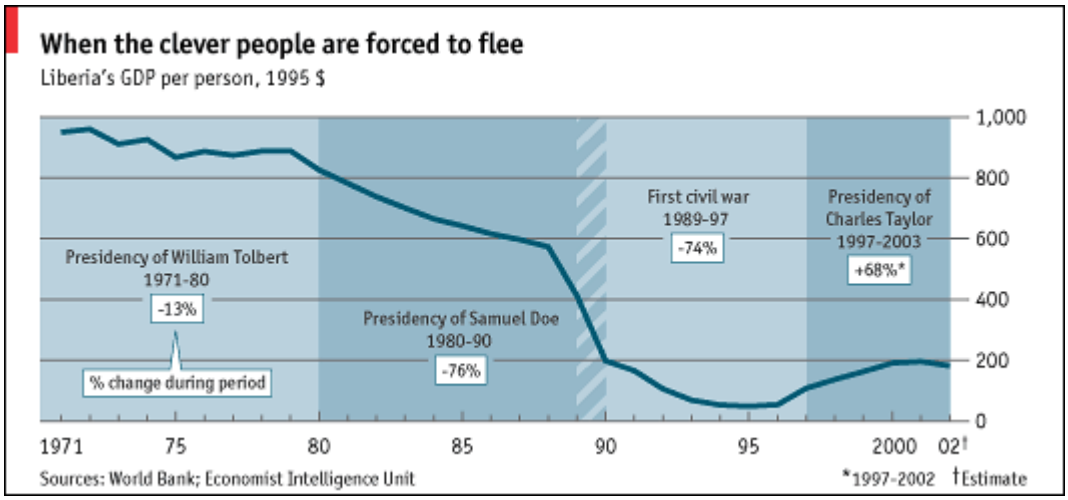
To retaliate for Mr Taylor's intrusions on their territory, the Guinean and Ivorian governments backed two rebel groups in Liberia, called LURD and MODEL. The rebels' military success, aided by international trade sanctions and American pressure, was what prompted Mr Taylor to stand down. Had he not done so, he might have ended up like Doe.

African leaders rarely censure their brothers, but they made an exception with Mr Taylor. Three fellow presidents, including Thabo Mbeki of South Africa, flew to Monrovia this week to make sure that the slippery despot, who once escaped from an American jail, actually boarded that aircraft. Mr Taylor surrendered power to his deputy, Moses Blah, a quiet former comrade-in-arms, who called for peace and offered the rebels a vice-presidency.

Will Mr Taylor's departure really end the war? There are hopeful signs. On August 12th, LURD leaders promised to pull back from central Monrovia to allow aid workers to move food and medicine through the port. But they remain hostile towards the rump of Mr Taylor's regime, and unfriendly towards each other. An interim government is supposed to be formed by October; the LURD chairman, Sekou Conneh, says it should be done sooner, and he should be president. Meanwhile, in Buchanan, Liberia's second city, fresh fighting broke out between MODEL and the army.

Outsiders are poised to help. About 1,000 Nigerian peacekeepers have been deployed: the vanguard of a proposed West African force of more than 3,000. South Africa, unexpectedly, has promised to send soldiers. And, after much hesitation, President George Bush started to send in some marines to secure the port, patrol the air and protect aid deliveries. Three American warships are floating close to the Liberian coast; the Pentagon said 200 of the 2,300 troops on board might soon come ashore.

To outsiders, Liberia can seem baffling. It is easy enough to understand why so many of the fighters carry toys—many are children. But why do they also dress up in wigs, masks and looted bathrobes or wedding dresses? Asked, some reply that it is to terrify their enemies. But others admit that it is for mystical reasons.



In parts of Liberia, cross-dressing is a symbol of the passage from boyhood to manhood, which is why some adolescent soldiers wear dresses when going about the manly business of war. Masks play a role in traditional religious rites. Many Liberians have long believed that the spirit within a sacred wooden mask can possess the wearer, and imbue him with its power. Soldiers today make do with anything that will change their appearance, from Halloween masks to shower caps. This allows them to distance themselves from responsibility for their actions, and also, many believe, makes them immune to bullets.

In the past 23 years, Liberia has regressed almost beyond measure. The flawed but fairly orderly society of the 1970s was swept away, to be replaced by mayhem. Those who would fix the country will need to understand why it broke down, which requires some knowledge of its unusual history.

Liberia was colonised, not by Europeans, but by freed American slaves, who declared an independent republic in 1847. Like other colonists, the Americo-Liberians believed that they had a mission to civilise the natives. They brought with them the manners and mores of the old American south: top hats and tail-coats, despite the dizzying humidity, and Christianity. They inflicted great harm, notably, in the early 20th century, by enslaving the locals. But they also brought roads, schools, written laws and economic development. After the second world war, other African independence movements saw Liberia as a

model. By the late 1960s, it was one of the continent's most prosperous nations.

The settlers formed an aristocracy, but it was one which educated indigenous people could join, by talent or by marriage. Such aspirations were encouraged. The two presidents who ruled from 1944 until 1980, William Tubman and William Tolbert, tried to persuade their subjects that they should not be content with being peasants, but should strive to join the industrialised world.

Unfortunately, this raised unrealistic expectations and, since the ruling class was ostentatiously corrupt, resentment. Both Tubman and Tolbert ruled through patronage, doling out jobs and favours in return for support. Those who did not share in this largesse grew bitter. In 1979, Tolbert caused a riot by announcing an increase in the price of rice, from which his family stood to benefit. The next year, a band of young soldiers broke into his bedroom and disembowelled him. Their leader, a semi-literate master-sergeant named Samuel Doe, moved out of his tiny shack and into the palace, declaring himself president.

The coup was greeted with elation: Doe promised to liberate the indigenous people from the Americo-Liberian yoke. To emphasise the point, he had 13 of Tolbert's inner circle stripped, humiliated and shot by drunken firing squads. Much of Liberia's educated class fled the country. Clinics, factories and schools ceased to function. Despite half a billion dollars of American aid, which Doe secured by letting the CIA spy on Libya from Liberian soil, income per head shrank by three-quarters during his decade in power.

Then came two partly tribal civil wars, one that brought Mr Taylor to power, and one that toppled him. Perhaps 200,000 people died, and the UN estimates that there are now 450,000 internal refugees in Monrovia. No one has much clue about conditions in the countryside, but the direction of the refugee flow suggests that life there is even worse than in the capital.

Liberia has rubber, timber and diamonds, but today the main industry seems to be looting. Mr Taylor's men are thought to be marginally worse, but the LURD are bad, too. Warehouses in Monrovia were attacked by both sides, who carried off food, liquor, building blocks, tubs of hair wax and so on, sometimes pausing to shoot each other. Some stolen bags of food aid have been distributed to hungry civilians, but the Robin Hood spirit is rare. “Everyone is chopping,” said a bearded Indian trader, huddled with friends on a balcony overlooking the free-for-all.

The Congress building has been stripped to an echoing husk. Debris litters the corridors. Offices have been cleaned out, their carpets torn up. Clumps of electrical cables hang from the ceiling. Last week, as the lawmakers who had not fled the country met to rubber-stamp Mr Taylor's resignation, a group of women walked off with the last valuables: a pile of sofa cushions.

The mother of all clean-ups

In Ghana, representatives of the government, rebels and civil-society groups are negotiating the form and composition of Liberia's promised interim government, and a timetable for elections. But the war may not yet be over and, even if it is, rebuilding Liberia will be an awesome task.

Unarmed Liberians all want peace, but the men and boys with guns are less sure. To persuade them to disarm, they need to be taught other ways of making a living. That will cost money, which Liberia lacks. Various countries have started to pledge funds for peacekeeping and reconstruction, but it will require thousands of peacekeepers, and an aid programme spanning several years.

This, in turn, will work only if there is a Liberian government with which outsiders can work. Some Liberian politicians, such as Ellen Johnson-Sirleaf, a former presidential candidate, make the right noises about democracy, the rule of law and respect for human rights. Recent history, however, is not encouraging. Once in power, all politicians face pressure to steal public money and share it out among their supporters and kinfolk. A former minister once wrote that even the Archangel Gabriel, if he were president of Liberia, would “become totally and irrevocably corrupted”. And most would-be politicians are not angels.

Religion may have a part to play in healing Liberia. Prince Johnson, Doe's killer, is now an evangelical preacher, and General Butt-Naked, a warlord so called because his men charged into battle naked, also claimed to have been born again. Some former foot-soldiers have found, in Christianity, a way of coping with their guilt. In a country overrun by drugged, traumatised gunmen, every crutch helps.

The long climb back to the level of development Liberia enjoyed in the 1970s will require peace, hard work, competent government and lots of foreign assistance. How much aid Liberia receives may, and should, depend on what efforts Liberians make to help themselves. Some seem willing. Joseph Roberts, a member of Mr Taylor's notoriously vicious “Anti-Terrorist Unit”, says his fondest ambition is to go to school. “If you can learn, nobody can play with your mind,” he said. Then, pointing to the AK-47 on his shoulder, he added: “You can learn to forget about this.”

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Iraq

A rocket in a Baathist's bath

Aug 14th 2003 | SAMARRA
From The Economist print edition

On patrol with the American army

Get article background

A WHITE signal flare floats into the night sky, illuminating the pall of dust that hangs over Samarra, 120km (75 miles) north of Baghdad. Some 30 seconds later, a roadside bomb rips into an American patrol, injuring no one but disabling an armoured car. “They knew we were coming this way,” says one soldier. “It's like they have the book ‘Terrorism for Dummies'. When we arrived here, maybe they were on chapter one, but now they're up to chapter ten.”

The soldiers of this armoured battalion of the United States Fourth Infantry division seem to be a few chapters ahead, however. Every night they send patrols deep into the town, and most nights they make contact with the enemy. The battalion—trained and equipped to duel enemy tanks in the desert—appears to have adapted fast to the very different challenges of urban guerrilla war. So far, the unit has suffered no deaths, though 12 soldiers were seriously injured. It claims to have killed or captured some 150 insurgents, both ringleaders and foot soldiers.

The battalion says that its enemies are a mix of former Baathists, radical Islamists , and hired gunmen. Townspeople suggest that some of the latter might be broke and bitter members of Iraq's now-dissolved former army. Sometimes the attackers can be identified. One former policeman and his brother are detained in his villa a few minutes after men matching their description are spotted aiming a rocket launcher at a nearby patrol. The pair protest their innocence, but are hard-pressed to explain why an AK-47 discovered in the home is cocked and ready to fire, or what a loaded rocket-propelled grenade launcher (RPG) is doing in their bathroom.

At other times, however, the enemy can fade back into the population. One American tank crew, chasing through the back streets in pursuit of a motorcycle—an RPG team's favoured means of transport—sees two men lounging on a street corner after curfew. The crew shoves the men to the ground, but the commander decides not to arrest them. Later, crew members realize that they have seen the pair before, as part of the workforce helping to fix their compound. This, they conclude, might be how the paramilitaries often seem to know on which roads to plant explosives.

American officers say that they are only opposed by a small minority. Samarrais differ as to whether the insurgents are troublemakers or freedom fighters. One pair of pavement ice-vendors praised the Americans for providing security. Their neighbour, a tobacconist, demanded that they pull out and let the town run its own affairs. Samarra was never as Baathist as other majority-Sunni towns in the region, but its people are bitter that the coalition has failed to alleviate postwar economic hardships, and that an American patrol killed three young men who drove past firing their weapons. Samarrais say that the three were part of a wedding party, shooting into the air in celebration. “ They don't trust us, and we can't [afford to] trust them,” says one American non-commissioned officer of the town's inhabitants.

Even those who support the coalition might not know what their neighbours are doing behind the walls of their compounds, or may simply be too frightened to help identify the insurgents. Townspeople working with the coalition say they face occasional hostility from their neighbours and have seen their names on death lists posted at the local mosques. One translator has been shot and wounded, others have quit, and the local businessman contracted to bring ice to American bases has stopped delivery. Insecurity has also impeded the coalition in setting up a city council, thereby limiting its ability to reach out to the population.

In Samarra, as in the rest of the country, the Americans are finding it hard to quash insurgents without

the active co-operation of other Iraqis, and that co-operation is only fitfully forthcoming. The Shia city of Basra suffered from economic neglect and political persecution under Saddam's regime, and initially welcomed coalition troops. But on August 9th and 10th, when the power failed and pumping stations ran out of fuel in the middle of a 125-degree heatwave, Basra erupted into riots. At least one Iraqi protester and a Nepalese Gurkha working for a private firm were killed. The violence died down as the coalition hastily patched together the power system and trucked in petrol, but the burnt tyres and chunks of rock still strewn across the streets were a reminder of the fragility of the respite. The coalition has blamed the crisis on mechanical breakdown and sabotage. The Basrawis, however, appear to be growing tired of excuses.

In Baghdad, meanwhile, motorists waited for hours for petrol. The shortage may be linked to the Basra crisis. Refineries have slowed output because of power problems. According to Iraqi officials, production of the crude that earns Iraq its hard currency has also been badly hit. A bomb blast at the Jordanian embassy on August 7th, suspected to be the work of al-Qaeda, has made matters worse, by prompting the coalition to tighten security in a city where closed thoroughfares already snarl traffic and inflame tempers.

The coalition hopes that as temperatures subside in the coming weeks, demand for power will ease, as will the hardships of going without. As the coalition-appointed Iraqi governing council begins to function, Iraqis may also gain confidence that the occupation is only temporary. The current council president, Ibrahim al-Jaafari of the Islamist al-Daawa party, gave his first press conference on August 11th, declaring the formation of a 25-member board to organize a constitutional convention. Mr al-Jaafari distanced himself from the coalition, praising it for “liberating” Iraq but condemning the recent accidental shooting of Iraqi citizens by American forces, insisting that they should “treat Iraqis properly” lest “hatred grow against them.”

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Corruption in Zambia

All in the past?

Aug 14th 2003 | LUSAKA
From The Economist print edition

Motes, beams and peculation

"THE way to kill the snake of corruption is to chop off its head," Zambians used to say when Frederick Chiluba was their president and graft was endemic. Now Mr Chiluba is out of office and his successor, Levy Mwanawasa, has begun an anti-corruption "crusade". As a result, Mr Chiluba is under arrest, facing some 150 charges concerning the theft of public money. But Zambians wonder whether the snake may not have a new head.

Sitting under a large portrait of himself at home in Lusaka, the capital, the ex-president this week denied claims that he ran a secret London bank account for spies. Accused of diverting some $30m from it for his own purposes, he says his co-accused—"the intelligence chief"—was really in charge of the account. He also denies that he or others gained personally from ill-managed privatisations, such as that of the copper-mining industry. "We kept away. We kept politicians out of it, or there was going to be corruption."

A new anti-corruption task-force disagrees. Mark Chona, its boss, says the graft "boggles the mind—just look at the flow of funds out of the Treasury." He points to 150 properties in Zambia and abroad owned by Mr Chiluba and others who prospered during his rule. Worth perhaps 80 billion kwacha ($17m), "90% of [the houses] clearly were obtained by corrupt means." He says his office receives countless tip-offs and information from "walk-in informers" who lead investigators to houses and flashy cars belonging to members of the *ancien régime*.

Unfortunately, the crusade seems to reach no further than the ex-president and his cronies, and serves to distract attention from Mr Mwanawasa's own woes. These are legion. The IMF looks set to delay debt relief because of $100m of unbudgeted spending this year. The Supreme Court is yet to say whether Mr Mwanawasa must answer charges of rigging his election in December 2001. On August 11th civil servants called a national strike and sang angry songs about hunger, after the government had reneged on a wage deal. The next day parliament began debate on the possible impeachment of the president: he is accused of taking kickbacks for his party and of acting unconstitutionally when he appointed a vice-president.

Ruling-party MPs blocked the motion. "It is easier for an elephant to give birth to a baboon than for this impeachment to succeed," said one minister beforehand. But Mr Mwanawasa is embattled, and that takes the shine off his pledges of "zero tolerance for corruption". So do other aspects of his rule: ministers' use of official cars for campaigning at by-elections, stuffing the government with new deputy ministers recruited from the opposition, and paying government salaries to provincial party officials. Such practices please neither Zambians at large nor donors.

Can Mr Mwanawasa rescue his campaign? Ordinary people might still be persuaded if he went after the small fry as well as the big. "It's petty corruption that can sink a country's fortunes," says Father Joe Komakoma, of the Catholic Centre for Justice, Development and Peace. Most people say they are affected by this sort. Policemen at roadblocks tell motorists "*Shani iya-lunch*" ("Give me lunch money"). Headmasters take "tips" from parents seeking places for their children, patients pay doctors in order to jump queues for treatment, and officials who allocate plots of land expect rewards. "It has become almost like a culture," says Mr Komakoma.

No wonder. One union leader explains that low pay—many civil servants take home under $50 a month—means "a worker is left with no option but to do one or two things to provide for the family." Higher wages, better training and punishment of offenders might cut this, though the first would upset the IMF. A recent poll by Transparency International, an anti-graft group, suggested that many people in Lusaka

expect corruption will eventually ease, and about half think it already has. But Mr Mwanawasa will struggle to keep such expectations alive. Going after his predecessor may not be enough.

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Tourism in Arab countries

Suddenly, Cairo is cool

Aug 14th 2003 | CAIRO
From The Economist print edition

Why Arabs are holidaying in other Arab countries

WAR in Iraq was expected to wreck tourism in the Middle East. Instead, hotels are bursting. Occupancy rates in Beirut are near 100%. In July, Egypt welcomed more tourists than in any other month in history. Traffic jams in downtown Cairo linger until the small hours. Property prices in Lebanon's chic hill stations are soaring. Why?

The region's biggest-spending travellers, Gulf Arabs, have abandoned jaunts to Europe and America for closer and, as luck would have it, cooler climes: while Europe bakes, the Eastern Mediterranean is enjoying one of the mildest summers in memory.

Gulf Arabs have long flocked to their less conservative neighbours for pleasures they cannot sample at home. Cairo and Beirut, and even Damascus or Amman, boast an urban buzz that is wholly absent from the sun-baked Arabian peninsula, complete with booze, gambling and unveiled girls. “We like to call it coming up for flesh air,” puns a Jeddah businessman, lounging with friends in the lobby of Cairo's Semiramis Hotel.

This year's influx has been prompted by other factors, as well. Europe is too costly: a taxi ride in Cairo costs less than one on the sweltering London underground. America, meanwhile, is shunned out of political pique, and because no one likes being strip-searched.

Arab tourist destinations have also grown savvier at self-promotion. Billboards in Saudi Arabia advertise quick, cheap tours to Egypt for cosmetic surgery and fertility treatment. Risqué pop videos from Lebanon—this year's hottest features a sultry red-head causing a bar-room bust-up singing: “I'll shun you but I won't leave you”—have re-glamourised Beirut as a Mecca for Arab youth.

The brashest self-promoter is Dubai. The emirate has scant natural appeal, little exciting in the way of history or culture, and is infernally hot. But it has bundled cleanliness, efficiency, fancy shopping and flashy gimmicks into a surprisingly successful package. It already boasts the world's tallest hotel, its biggest artificial island (under construction), and an indoor ski slope. The latest novelty is even surer to attract parched desert dwellers. A German investor is sinking $500m into the world's first undersea hotel.

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The EU's coming ex-communist members

We're doing all right, but what about you?

Aug 14th 2003 | BRATISLAVA
From The Economist print edition

They are still poor, but the EU's future members from central and eastern Europe are becoming givers of aid

MOST people hate to lose money. Most governments, for all their efforts to pour the stuff down black holes, are just as unhappy. But the citizens and rulers of the eight central European and Baltic countries waiting to join the European Union next year are more proud than sad at their loss of most foreign-aid inflows. The future members are still very poor, by EU standards, but the worst of the post-communist slump is behind them. They are becoming givers of aid, not just takers of it.

Probably the most influential private aid donor to central Europe, George Soros, an American financier and philanthropist, will be keeping the offices of his Open Society Institute in the region, but cutting spending from $32m last year to about $10m next year. The institute aims to promote values such as democracy, good government and minority rights. EU membership for these central European countries will help safeguard those values, leaving less need for other aid, Mr Soros says.

In the 1990s the central European and Baltic countries received, in all, about $18 billion in official finance from sources including the EU, the American government, the World Bank, the IMF and the United Nations Development Programme (UNDP). Now they are becoming net donors to UNDP programmes: Slovenia first, in 1997, followed in 2001 by the Czech Republic. Only Latvia and Lithuania owe any money to the IMF. World Bank lending has fallen sharply, except in Slovakia, which was late to reform. The United States, the biggest supplier of bilateral aid in the 1990s, says the central European and Baltic countries no longer need it.

The EU has continued pumping in money. As they wait to join next May, the future new members are receiving “pre-accession” aid, worth about *euro*3 billion ($3.4 billion) this year alone. Once inside, they will get farm subsidies and development cash from the structural funds that the EU gives its poorer regions; the EU expects to spend about *euro*5 billion in the new member countries next year, though from May they will also be paying in to its

general budget.

They will have a say too on the aid that the EU gives to other countries, about *euro*5 billion this year. But, that apart, the Union will expect them to give further aid money from their own pockets. Last year it said that each member should try to earmark at least 0.39% of its GDP for development aid by 2006.

That would be a tall order for the new members: the most generous of them, the Czech Republic, expects to spend less than 0.1% of GDP on aid this year, others much less. But their problem will not only be finding the cash, but spending it effectively. They gave guns and butter to poorer Soviet satellites in communist times, but have little infrastructure and expertise for managing development aid now.

Here the UNDP says it can help. It is offering to advise what it calls “emerging donor” countries on designing national aid programmes, and to let them use UN offices and experts in distant places to run projects, so saving on administrative costs. The Czech Republic has covenanted money for spending through the UNDP; Slovakia is about to do the same.

Where would the aid go? In UNDP eyes, the central Europeans should look first at projects in the Balkans, Ukraine and Moldova, the Caucasus, and Central Asia. The ex-communist countries in these areas have economic, environmental and political problems echoing the ones the central Europeans overcame in the 1990s. Language also gives the central Europeans an edge: Russian is still, just, a lingua franca across the former Soviet block.

The central Europeans will probably see things the same way. A focus on eastern Europe and Central Asia matches their foreign-policy priorities. For their own peace of mind, they want stable and prosperous countries to their east, not poor and rackety ones with dodgy democracies and even dodgier nuclear power stations. They will probably argue for directing more of the EU's aid budget in that direction, once they have a say in it.

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The former Soviet block and its past

Come clean—but how clean?

Aug 14th 2003 | BRATISLAVA AND RIGA
From The Economist print edition

How should the old KGB files be used? And just how publicly?

PERCHED above a loud casino in the heart of old Riga is something more sober: the Centre for the Documentation of the Consequences of Totalitarianism. Its staff of 12 are the custodians of some 5,000 filing cards that Latvia cannot decide whether to remember or to forget.

When the KGB quit the satellite states of Russia's crumbling empire, it took with it what it could. In East Berlin, where crowds besieged the offices of the secret police after the wall came down, that was almost nothing. In some countries it was able to remove or destroy almost everything. In Latvia it left behind a tantalising trove: the names of its agents and informants, but not what they had done.

How is Latvia to handle this partial knowledge? It now bans former collaborators from public office and from sensitive jobs; in the judicial system, for instance. Applicants for such jobs must be screened, against the information that the documentation centre has pieced together, as best it can, over the past decade about each person listed. The information is used only for this purpose or for prosecutions. But next year the jobs ban expires, and some politicians want the files published, so that Latvia can make a break with its history.

Almost all the ex-Soviet satellites have felt the need for some kind of purifying and excision of the past. Most, like Latvia, have job restrictions and have prosecuted some former collaborators. But the variations are great. In the former East Germany, 250,000 bureaucrats were put under review (for incompetence, not least), according to Natalia Letki, at Oxford University. Poland screened some 20,000 jobs, but barred only people who lied about past collaboration, thus encouraging most to come clean. In Estonia, where hardly any files remained, the process has consisted largely of voluntary confessions.

The debate in Latvia comes at a sensitive time. A new government came in last year promising to root out corruption, some of it among former Communist bosses who have since become rich. And Latvia is beginning, belatedly, to face the facts of collaboration with the Nazis.

One trouble is that the information in the KGB files is patchy. Someone listed may have been a regular collaborator; or a scientist obliged to report on some overseas conference; or even a potential informer who was never used. Some of the stuff may be false; and the most active agents may not be named at all, since the files of any apparatchik who reached a certain rank were normally destroyed.

So publishing the files, say opponents of that idea, would cause an unwarranted witch-hunt, implicating some innocents and sparing some of the guilty; it would be better simply to renew the jobs ban and carry on as before. “This is a system that encourages people to clear their names,” says Indulis Zalite, the manager of the documentation centre, “and it has been working for almost ten years.”

One other future EU state is yet to make public its communist-era secret-police files: Slovakia. When Czechoslovakia split in 1993, its archives were divided, and Slovakia's share vanished into the maw of a powerful new intelligence service reporting to Vladimir Meciar, the autocratic prime minister. Only when Mikulas Dzurinda, today's prime minister, took office, at the head of a shaky coalition, in 1998, did Slovakia begin to liberalise in earnest.

The files are due for release later this year. By law, the state intelligence service must first hand the archive over to an Institute of National Memory set up by parliament. But even now the spooks have been dragging their feet, setting new conditions for the hand-over and demanding that institute staff get security clearance first. However, Jan Langos, head of the institute, thinks they will fall in line.

Mr Langos, who was interior minister of Czechoslovakia in 1990-92, plans to put a catalogue of the files on the internet, and to give free access to those of agents and informers of the communist-era secret police. Files of people who were investigated will be open only to them, or, if they have died, their next-of-kin. The archives have no doubt been weeded during their years of storage. But if revelations remain that make waves in Slovak society even now, then so be it, says Mr Langos: “People have a right to be upset.”

The Czech Republic has handled things well. Left, like Latvia, with partial records, it has done its cleansing in stages. This year it published the names of former collaborators and agents. But by then researchers had separated these from people who had merely been earmarked as potential informers—among them the dissident leader and later president, Vaclav Havel.

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The heatwave

The unpower of prayer

Aug 14th 2003
From The Economist print edition

Not even the Vatican could cool Europe down

MAYBE the faithful weren't listening. Maybe the Almighty wasn't. As Europe sweltered, the pope on Sunday urged his followers to pray for rain. That day, temperatures hit the highest ever seriously recorded in Britain, 38.1°C, and in Germany, 40.8°. Paris felt 42°, Alessandria, in north Italy, 42.9°. Only at mid-week did Europe start to cool.

By then, plenty of damage had been done. Following earlier deaths in Portuguese forest fires, five members of a Spanish family died fleeing one near Barcelona. How many more people died of heat—or polluted air—was in dispute. Huge numbers of hens, suffocating indoors, certainly did: 2.5m was one guess in France. The European Commission reckoned cereal harvests would be 5% down; 10% or 15%, said farmers.

In France and Germany, for lack of cooling water, many nuclear power stations were slowed or shut down. In both countries, rules on the temperature of discharged water were eased. But low output and roaring air-conditioners rammed up spot prices for electricity. The Czechs, who use a different cooling system, exported merrily.

Under stress, habits altered. Germans, reported an Italian daily paper gleefully, were learning to take a siesta, eat and drink at outdoor cafés, even “turn round in the street to look at pretty girls”. But not all was change. While its chateaux promised a vintage to die for, France's farmers howled that their starving cattle were doing just that and demanded subsidies. Spain's *El País*, with leaked documents to hand, blasted the government for telling its general staff to sex-up tales about Iraq; Spanish voters, beach-bound, weren't reading. And did the British rush to acclaim their 38.1° record as such, in new-fangled degrees Celsius? Not Fahrenheit likely.

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Germany's federalism and finances

Municipal mayhem

Aug 14th 2003 | BERLIN
From The Economist print edition

The cities are going bust, but they don't fancy the government's rescue plans

IT TOOK Gerhard Schröder and his left-of-centre government almost five years to realise that Germany needs a serious makeover. But now it seems things can't change fast enough. On August 13th his cabinet hammered out half a dozen pieces of legislation covering things from welfare to the labour market, from federal budget to municipal finances, and more.

Yet, as is apt to happen, quantity, expediency and speed come at the expense of quality and substance, making it all the more likely that some of these measures will be much watered down on their way through Germany's tortuous legislative process, or maybe abandoned entirely. That risk is especially great for a reform package supposed to boost revenues for Germany's 13,800 cities and towns, many of which are on the verge of bankruptcy.

Increased welfare payments, and new responsibilities imposed but not financed by the federal government, have shoved up municipal spending in recent years. Revenues, in contrast, have declined; in particular, a trading tax that generates a third of local tax receipts (as against 17% from property, a mainstay of local finance in many countries). So total municipal deficits, €6.7 billion in 2002, may hit €10 billion (over $11 billion) this year.

Essen, for example, a once mighty industrial city in the Ruhr, has made deep budget cuts in recent years, cutting the number of municipal employees by about 15%, and investment by 40%. Yet this year it expects to be €386m in the red—nearly €650 for each of its 600,000 people.

For years the federal government shut its eyes to the problem. At last, in early 2002, it asked a commission to look for a solution. Last month the commission offered one: merge welfare benefits, now locally financed, with unemployment aid—the hand-out after (paid-for) unemployment insurance runs out—into a single new federal benefit. That would especially help large cities. Second, and more important: widen the trading tax, which now mainly depends on profits, to hit rents, leasing fees and interest payments.

The government at first seemed ready to try, but then yielded to the arguments against forcing firms to pay taxes even when they are making losses. Instead, it decided to broaden the tax base, by ending the exemption of self-employed professionals such as doctors and lawyers. Many will be able to set their payments fully against income tax; but that still means more money for local revenues at, mainly, the centre's expense. The government also wants to close some tax loopholes, and give municipalities a larger share of the income tax. All told, the measures are supposed to boost municipal revenues by *euro*4.5 billion next year, and *euro*5 billion in 2005.

Splendid? No. No one is happy: not the opposition parties, of course, but nor yet Mr Schröder's own Social Democratic Party, nor, least of all, the towns and cities. They want more money; and they complain that the reform plans will turn the trading tax into a pure profits tax, which will sooner or later become part of the income tax, robbing them of their last bit of financial independence. The federation of municipalities plans mass rallies of protest across the country.

Given the backlash, the package will have to be amended, if it is to get through the Bundesrat, the upper house. Opposition parties have a majority there—and self-employed professionals are an important constituency for them.

So Germany is unlikely to get soon the sort of fiscal reform that experts like Fritz Scharpf, director of the Max Planck Institute for the Study of Societies, in Cologne, have long called for: a disentangling of the

tax system, in which the different levels of government at present share most tax revenues, hoping to produce similar living conditions across the country. If, for instance, municipalities could instead fix and levy their own taxes, says Mr Scharpf, there would be more competition among them and more political accountability.

The planned overhaul of Germany's federal structure would be a good opportunity to tackle this fiscal issue. Yet the *Länder*, Germany's constituent states, do not even want to talk about it when negotiations start later this year.

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Spain and its Basques

Here's a road map—maybe, perhaps

Aug 14th 2003 | MADRID
From The Economist print edition

A leaked plan has put the separatist cat among the centralist pigeons

"THE possibility of this succeeding is zero." Thus Spain's prime minister, José María Aznar, on the latest plan of the Basque regional premier, Juan José Ibarretxe, to turn his region—now merely one of Spain's 17, though with more autonomy than most—into a "free state associated with Spain". Mr Ibarretxe's idea is not new, but he had hoped to keep his latest version of it under wraps until he had reached a consensus with his allies in the regional assembly. But a conservative newspaper, *ABC*, got hold of a draft and Mr Aznar reached for the big stick.

The plan envisages the Basque region "sharing sovereignty" with Spain. But its economy and judiciary, among other important matters, would come entirely under Basque control. And, above all, the region's voters would have the right to decide their own future, including the option of independence, in a referendum.

Mr Ibarretxe, whose Basque Nationalist Party (PNV) has ruled the region, in one coalition or another, for the past 25 years, plans—once he has squared its current allies in the regional assembly (a local party that split from his own, and the ex-communist United Left)—to ask the assembly to amend the region's constitution, known as "the statute of Guernica". That done, the result would be put to the Spanish parliament, and then to a Basque referendum.

The whole idea is one step from treason, in Mr Aznar's eyes. "The aims of nationalism [ie, the PNV] and of terrorism [the separatist gunmen of ETA] are identical," he says, and the plan is "utterly incompatible with the [Spanish] constitution". The state prosecutor, Jesús Cardenal, likened the plan to something from Asterix and Obelix, the Gaulish defiers of imperial Rome in France's favourite comic books.

As for practicalities, José María Michavila, the justice minister, says the Constitutional Court would annul any such alteration to the Basque constitution; nor is there any chance that the Spanish parliament would agree. That is true: not only does Mr Aznar's conservative People's Party (PP) now—and quite possibly after the general election early next year—have a majority, but the Socialists too would say no. They say they favour real regional autonomy everywhere (translation: especially in Catalonia, where they hope to win regional power this autumn); but the PNV plan is another matter.

Exactly what Mr Ibarretxe is really after is unclear. More autonomy, certainly. But full independence, who knows? He said the leaked plan was one of eight drafts, and that he would unveil his final version only next month. For all its decades of power, the PNV has never been crystal-clear about its long-term aim. Its historic leader, Xabier Arzalluz, the party president, certainly dreams of independence, and, though now 70, he still has considerable influence. But those who have to run the region, and its relations with Madrid, have to live with the world as it is.

Indeed, the PNV is decried by more committed (and more left-wing) Basque nationalists as the vehicle of a self-serving Catholic Basque establishment that has no real intention of altering the status quo. ETA says the plan does not go far enough, since it does not argue bluntly for outright independence, nor make a claim, as ETA does, to a wider Basque country including the neighbouring Spanish region of Navarre and bits of south-west France.

Since his draft plan was leaked in *ABC*, Mr Ibarretxe has tried to play down its most controversial aspects. "It has been turned into a phoney debate by people who want to present our proposal as secessionist," he said. He pointedly refused to talk of a "free state associated with Spain", preferring to use the less drastic phrase "a free associated community". He says he wants peaceful co-existence: "This is the key year for Spanish and Basque politics, when we must decide on the model of the relationship

between the Basque region and Spain for the next 20 years."

Many Basques think Mr Ibarretxe is going too far. His government's own sociological unit published a survey last month suggesting that only 22% definitely favour independence, 33% say it depends on the conditions, and 32% are against. But 89% supposedly favour the idea of a referendum to decide whether the region should have a new status, and 42% said they thought Mr Ibarretxe's plan would help.

Oddly, however, three out of four of the survey's respondents said they had never heard of the plan—and felt no wish to know more about it.

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France's anti-globalisation festival

Rock fort

Aug 14th 2003
From The Economist print edition

French anti-establishment rallies are becoming, er, an institution

AP

A power shower for arid Larzac groupies

THIS summer France has been a bit of a cultural desert: thanks to strikes by performers and technicians against government plans to limit unemployment benefit for arts part-timers, almost all festivals and events have had to be called off. But last weekend an oasis appeared. For three days, Larzac, an arid, sun-baked plateau in Roquefort country, was awash with actors and musicians eager to display their talent in performances aimed against the tyranny of market forces in their trade.

Their audience was huge. More than 200,000 people gathered at Larzac, and many thousands more were turned back, for fear that drinking water would run out. Their original target had been the coming world trade summit in Mexico. But a series of “neo-liberal” government reforms in the spring—on pensions, education, devolution and unemployment benefit—brought domestic issues into the mix. And when José Bové, the high priest of French civil disobedience, and one of the main organisers of Larzac, emerged triumphantly from jail a week before, it became clear that this was Bastille day for anyone in the struggle against market-based globalisation; with a festival atmosphere and free concerts as added draws.

The anti-globalisation movement in France now labels itself *altermondialiste*—globalisation, okay, but quite a different sort—and it has evolved a great deal since its early stone-throwing days. In place of rants against McDonald's or the IMF, the workshops at Larzac heard technical discussions about public goods, the distribution of property rights and market failure. To Mr Bové, the aim was to turn protesters' “visceral” dislike of market domination into coherent, argued opinions. But mystic appeals to tradition and diversity remain important. Witness the choice of location: three decades ago, Larzac was the site of a successful resistance movement organised by a hundred local sheep farmers against the extension of an artillery range.

Counter-summits such as last weekend's, blending political activism with entertainment, are increasingly overshadowing both mainstream politics and France's official left. At the G8 summit in Evian in June, French media devoted more attention to the three “alternative villages” than the official event. In November, at least a million visitors are expected in Paris for the second European Social Forum. Attempts by the Socialist Party and the trade unions to profit from the movement are fiercely resisted. Party politicians and their deal-making, *c'est la merde*: pragmatism was a dirty word at Larzac, a place where a handful of peasants took on the government and the army and won.

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Italy's politics

You're another

Aug 14th 2003 | ROME
From The Economist print edition

The prime minister's friends trade blows with the judges

Get article background

FOR Silvio Berlusconi's enemies, it was naked revenge, for his friends, simple consistency. The day after judges in Milan handed down a hugely damning judgment on one of the Italian prime minister's closest associates, his party spokesman called for a parliamentary commission of inquiry into the judiciary.

Mr Berlusconi soon endorsed the idea: a parliamentary committee had already backed it last March, he said. The commission's job would be to examine whether the judiciary had been put to political use, as he has repeatedly contended in reply to the many legal charges brought against him and his cronies. To him, the judges are all part of a plot mounted through the courts by his left-wing opponents.

The latest evidence of a conspiracy, on this view, is the lengthy ruling in which the judges who gave Cesare Previti an 11-year jail sentence in April set out their reasons. They said that Mr Previti, once Mr Berlusconi's own lawyer, had been involved in “a gigantic operation of corruption”. It included the use of money from Mr Berlusconi's Fininvest group to bribe judges into the verdict that gave him control of the Mondadori publishing group 12 years ago. Mr Berlusconi himself was a co-defendant in the trial, but the case against him lapsed under the statute of limitations.

Mudslinging, say his supporters, and they reckon two can play that sort of game. While judges and opposition politicians denounced the proposed commission of inquiry, an existing one, by curious coincidence, sprang to life. Parliamentarians looking into the 1997 purchase by Telecom Italia, a then state-owned company, of a 29% stake in Telekom Serbia visited a jail in Turin to hear evidence from one Igor Marini, a wheeler-dealer (and former porter in Brescia's fruit and vegetable market). Three months ago, he claimed to the commission that kickbacks were paid to some leading figures on the left: notably Romano Prodi, head of the European Commission, who is a former prime minister and may be Mr Berlusconi's next challenger for that job. Mr Marini repeated his claim.

Mr Prodi and the others named have vehemently denied it. But is there fire beneath the smoke? The purchase was certainly a sorry affair. According to *La Repubblica*, the (left-leaning) newspaper that brought it to public notice, kickbacks were paid to both Italian and Serbian intermediaries. The money raised was a godsend to Slobodan Milosevic's unpleasant regime. And there was a suspicious amount of it: DM893m ($515m at the then rate). When Telecom Italia, now privatised, sold back its stake to the Serbian government last December, it received just $204m.

Yet, after more than two years of digging by journalists, lawyers and politicians there is no real evidence against the politicians Mr Marini accuses. He, on the other hand, has been described by his wife as a “professional liar”. The Turin prosecutors have labelled him a “braggart” and accused him of attempted fraud. A right-wing newspaper, *Il Giornale*, this week claimed that the commission of inquiry had received a separate dossier backing up his story. But the paper admitted it had not set eyes on the dossier, and even its version of what was, maybe, inside referred to three putative bribe-takers only by the nicknames that Mr Marini claims to mean the politicians he has fingered.

Mr Prodi—“Mortadella”, a kind of fatty sausage, in the Marini version—is dismissive. On holiday in Italy, he said that if Mr Berlusconi and his friends were “hoping to drag out the affair until the elections, they are making a mistake. They have to pull out something solid. And that is when everything will collapse, because they have nothing.” Which is, by the way, the strongest hint so far from Mr Prodi that he may stand in the elections, due in 2006.

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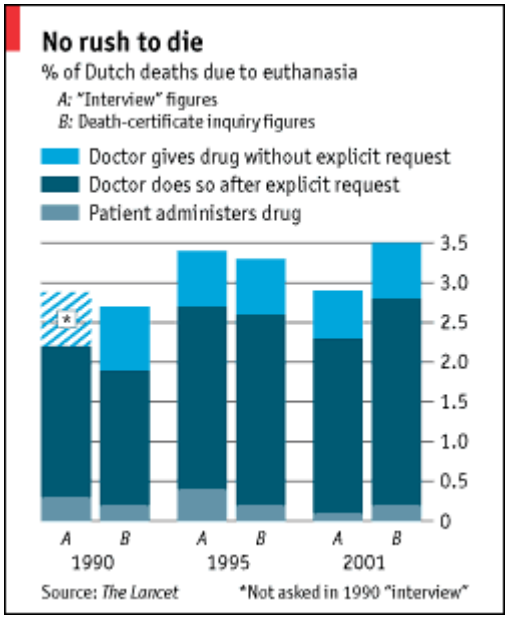
Euthanasia in the Netherlands

No rush to death

Aug 14th 2003
From The Economist print edition

The Dutch are famously tolerant of euthanasia. But they don't do much of it



FOR some 25-30 years Dutch society has become increasingly tolerant of euthanasia, and a law passed in April 2001 formally legalised it. Critics have feared, if not murder, at least a rush to voluntary death. Did it happen? At first, almost inevitably so. But two recent reports suggest that demand for euthanasia is stabilising.

One, published last month in the *British Medical Journal*, was based on figures from 60 roughly representative Dutch general practices, the same ones each time, from 1977 to 2001. Projected nationwide, the data suggest that in the late 1970s about 1,500 terminally ill Dutch patients each year asked for death; by 1985 about 4,000; but then the rise slowed, and after 1995 the trend levelled off at 5,000 or so. Three-quarters of these are cancer sufferers, and nine-tenths of the requests are in writing, in the form of a “living will”.

The *Lancet* in June reported the latest of three Dutch studies made in 1990, 1995 and 2001. Interviews with about 400 general practitioners, specialists, and nursing-home doctors—the individuals varying from study to study—found that the number of requests for euthanasia rose by 30% from 1990 to 1995, but then barely altered by 2001.

The *Lancet* figures—it is not clear why—are much higher than those in the *British Medical Journal*: nationwide, the recent ones imply about 35,000 general requests (“when the time comes, doctor...”) each year for euthanasia and 9,700 explicit ones (“please, I want to go”). Given about 140,000 Dutch deaths each year, that looks a lot. And sample surveys of death certificates, followed by inquiries of the doctors concerned, indeed showed that by 2001 in 40% of all deaths the doctor either gave a painkiller that might shorten the patient's life, or simply ceased treatment. But actual euthanasia—giving a drug overtly intended to kill the patient—was far rarer than requests for it: even on the figures from these inquiries, a bit higher than those from the random interviews, only 3.5% of deaths, about 5,000 a year, were due to this cause.

And even now, when it comes to the point, the Dutch are shy of death. The total includes only 0.2% of people who administer the drug themselves, rather than have the doctor do so. At the other extreme, only in 0.7% of cases does the doctor act with no explicit request. An odd figure, that: it has been steady since 1990, yet the proportion of doctors who say they would never do such a thing has nearly doubled to 71%.

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Politics

The BBC on trial

Aug 14th 2003
From The Economist print edition

Reuters

The inquiry into David Kelly's death has discomfited the BBC

Get article background

IN COURT 73 of the Royal Courts of Justice, where the judicial inquiry into the death of David Kelly, the weapons expert who got embroiled in a row between the government and the BBC and then killed himself, is taking place, the questioning of witnesses has been as cool as the air conditioning. But the courteous approach of Lord Hutton, heading the inquiry, only sharpened the BBC's discomfort. In the inquiry's first week, it is the corporation, not the government, whose reputation has suffered.

On May 29th, Andrew Gilligan, defence correspondent of “Today”, the BBC's morning radio current affairs programme (above, on his way into the inquiry), reported, in a live, unscripted, interview at 6am, that Downing Street dishonestly “sexed up” a dossier published last September. He said that it inserted, against the wishes of the intelligence services, the claim that Iraq could deploy weapons of mass destruction within 45 minutes.

Until now, the BBC has solidly defended the story. But public defiance was not matched in private. The inquiry has exposed an e-mail from Mr Gilligan's editor, Kevin Marsh, to the head of BBC Radio, Stephen Mitchell, branding the story “a good piece of investigative journalism, marred by flawed reporting”. Mr Marsh added that “our biggest millstone has been his loose use of language and lack of judgment.”

So far the blame has fallen on Mr Gilligan. Like many investigative reporters, he works odd hours and has a reputation as an eccentric, if interesting, loner. He gets original stories but his methods are unusual. He took no pen to his meeting with Mr Kelly at the Charing Cross Hotel on May 22nd, and neither wrote notes during it nor recorded the conversation. Instead, he tapped out bits of Mr Kelly's comments on to his personal organiser, later wrote out a longer transcript and then lost the transcript. He did not bother to check his explosive story with Downing Street to get its reaction.

Mr Gilligan's approach contrasts with that of another BBC reporter, Susan Watts, the science editor of “Newsnight”, a television current affairs programme, who both took careful notes and taped her conversations with Mr Kelly. Her account partly backs up Mr Gilligan's version of what he was told by Mr Kelly; but she felt Mr Gilligan's most explosive allegation—that Alastair Campbell, Tony Blair's communications chief, had personally ordered that the dossier be “sexed-up”—was “gossip” and not

reportable. She recorded Mr Kelly saying that he could not confirm that Mr Campbell was personally responsible. Ms Watts said that she felt under pressure to “mould” her reports “not for any news purpose” but so that they corroborated Mr Gilligan's. She felt this was “misguided and false”. She had, as a result, hired her own lawyers, instead of using the BBC's, for the inquiry.

But if the BBC has been sloppy, the blame should fall not on Mr Gilligan but on his bosses. To allow a reporter to broadcast such an explosive story, live and unscripted from his home, was foolhardy. No quality newspaper would print such a story, from a single anonymous source, without further checks. Investigative reporters need to be kept on a tight rein. Mr Gilligan—who was hired by the previous editor of “Today” to “make trouble”—was not. Mr Marsh acknowledged in his e-mail that the story was “a result of the loose and in some ways distant relationship he's been allowed to have with ‘Today'”.

Mr Gilligan is a symptom of the BBC's changing relationship, not just with government, but also with news. During the general strike in 1926, Lord Reith, its first director-general, said, “Assuming the BBC is for the people and that the government is for the people, it follows that the BBC must be for the government in this crisis too.”

Those days are long gone. “Panorama”, the BBC's flagship current affairs programme, has been breaking stories for decades; but the corporation's news programmes, under increasing pressure to keep their ratings up, have got the bug more recently. Whether its editorial systems have adjusted to this is not clear. Last year, the corporation narrowly escaped one of the biggest libel actions in British history after wrongly accusing Oryx, a mining company, of links with al-Qaeda; Mr Gilligan could, it seems, have done with some more careful oversight.

The BBC's responses to Downing Street's indignant denials also look unwise. The director of BBC News, Richard Sambrook, wrote to Mr Campbell: “Andrew Gilligan accurately reported the source telling him that the government probably knew that the 45-minute figure was wrong.” But Mr Gilligan admitted to the inquiry that Mr Kelly had not told him this. Acknowledging that his use of words in the broadcast had been less than “perfect”, he told the inquiry: “It was not my intention to give anyone the impression that the government had lied or...made up this intelligence.” And on July 6th, the BBC's governors said that they were satisfied that the proper guidelines had been followed. But, privately, they said that “careful language had not been applied by Andrew Gilligan throughout.” In which case, they should have investigated, not defended, the story: their job is to ensure that the BBC acts in the public interest.

Still, the government cannot draw much comfort from the BBC's bad week. Lord Hutton will soon take evidence from Alastair Campbell and Tony Blair. Things will get hotter in Court 73.

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London's airports

No stopping Heathrow

Aug 14th 2003
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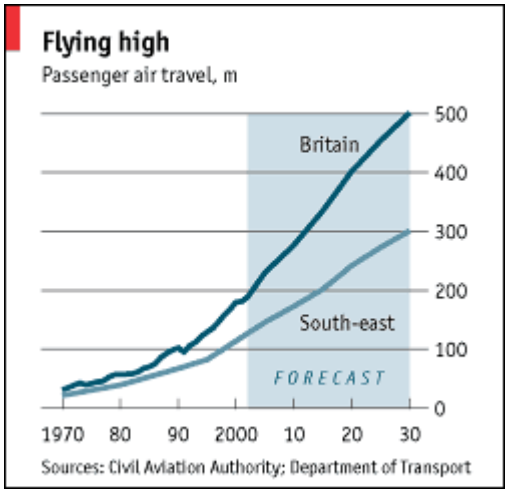
The government is likely to propose a new runway at Heathrow Airport



PEOPLE who live near runways hate them so much that governments are reluctant to allow airports to expand. As a result, no new runway has been built in the south-east of England for half a century. With passenger numbers doubling every decade, the result is overcrowded terminals and increasing flight delays. Heathrow is so congested that a third of its flights are delayed.

This government knows that this can't go on. Next month ministers will meet to decide where airport expansion should take place. Alistair Darling, the transport secretary, privately believes there is no point “in prolonging the agony”. The way things are going, his proposals are likely to provoke fury in London.

The government is moving towards backing the further development of Heathrow, to the west of London, the most controversial of all the options before it. A third runway at Heathrow, which would increase flight numbers by nearly half by 2030, would anger the hundreds of thousands of Londoners who live near or under the proposed flight path of the new runway. Areas that are likely to be affected include parts of Heston, Chiswick, Hammersmith and Kensington and Chelsea. A pressure group, Heathrow Action Campaign Against Noise, claims that 150,000 more people will suffer noise above the 54-decibel safe level set by the World Health Organisation. The government itself says in its consultation document that as many as 35,000 people living near a third runway could face pollution levels above European Union limits.

Ministers, however, appear determined to go for Heathrow. The option of a completely new airport at Cliffe in Kent has been binned—too many birds that might get in the engines. The Treasury supports a new runway at Heathrow rather than at Gatwick or Stansted principally because more people want to fly there, so the returns look better. The government's consultation document says that the net benefits of a 2,000 metre (2,187 yards) runway at Heathrow would be nearly £8 billion ($12.8 billion) by 2030. If it were combined with a second runway at Stansted, which ministers may also approve, the benefits would rise to more than £12 billion.

Mr Darling, who is close to the chancellor of the exchequer, is unlikely to oppose the Treasury's lead, even though his officials are nervous about a public backlash. The commercial pressures pushing further development at Heathrow are strong. The aviation industry, in particular British Airways, is in favour of expanding Heathrow. The Confederation of British Industry and trade unions such as the GMB and Amicus are represented by an influential pressure group, Freedom to Fly, which is campaigning for Heathrow.

There's not much opposition to expanding Heathrow from within government. The deputy prime minister, John Prescott, who might be expected to be hostile to the new runway because it will increase development pressures in the south-east, is said to be supportive. Tessa Jowell, the culture secretary, is said to be the only minister against the plan other than Margaret Beckett, the environment minister, whose department is worried about its impact on carbon emissions.

Pollution worries could just sink the scheme. The government has said publicly that it will not permit a new runway to be built until it is “confident that the levels of all relevant pollutants can be consistently contained within the EU limits”. BAA, the airports firm which owns and runs Heathrow, has commissioned

research which indicates that the number of people subject to excess pollution would be much less than the government has suggested. But even though aircraft engines are getting roughly 1% cleaner each year, this could be a problem.

An angry public could also scupper the plan. Opinion polls commissioned by Freedom to Fly suggest there are majorities of up to 80% in favour of new runways in the south-east. But the polls don't measure intensity of feeling. That majority may be mildly in favour of new runways; those who oppose expanding Heathrow are passionately against it, as the government will soon find out.

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Exams

Could do better

Aug 14th 2003
From The Economist print edition

Moves away from A-levels and GCSEs

Get article background

AS A-LEVEL results drop through students' letter-boxes this week, the volume of criticism is rising again. It is a commonplace that, as more and more people have got better and better grades over the years, dumbing-down has undermined the value of exams. Now A-levels and GCSEs are getting the same treatment as any devalued currency: being abandoned.

The government is planning a new exam system for 14-19-year-olds. Its adviser on the subject, Mike Tomlinson, favours a baccalaureate that will, supposedly, record every form of achievement at school from basic bricklaying to advanced maths, as well as imposing on students a broader curriculum than A-levels do. But, even if the government agrees with Mr Tomlinson, this is some ten years away.

In the meantime, there is no shortage of ideas. The Tories have picked up the sensible idea of making the exam setters independent of government—doing for marks what the Bank of England does for money. An independent regulator, they suggest, would not be susceptible to pressure from politicians to make sure that students get ever-better grades—which the government's determination to send half the population to university requires.

Pending changes at the top, academic schools are thinking of dropping the GCSE exams that most children take at 16. Like A-levels, these have focused more on hoop-jumping and box-ticking than on actual education. They are also expensive for schools and time-consuming and tedious for bright children, who can get a dozen or so A* grades. Eton College, the country's best-known independent school, said last week it might start cutting down on GCSEs to give its boys more time to do A-levels.

The head of the exam regulator, the Qualifications and Curriculum Authority, Ken Boston, initially welcomed the move and said that headteachers should feel free to innovate if it would suit their schools. The next day (presumably having had his knuckles rapped by the ministry) he backtracked, saying that this did not mean that there was anything wrong with GCSEs.

Another change, backed by Steven Schwartz, the government's adviser on getting more young people from poor backgrounds into higher education, is to start the university admissions process after, rather than before, the A-level results are known. The thinking is that this will make it less likely that bright students from bad schools will suffer because they underestimate their abilities and therefore fail to think about applying to top universities until it is too late.

Such ideas could help a bit. But the fundamental problem will remain. Exams produce nice clear results, which can give useful clues about the performance of pupils, schools, teachers, methods and every other variable in the system. But they don't bear too much examination.

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Tourism

The disaster that didn't happen

Aug 14th 2003
From The Economist print edition

Iraq was bad news. But the tourist industry is fighting back, thanks to Europe

A CRUISE liner? At Barrow-in-Furness, that grey Cumbrian port where they build submarines and export limestone or reprocessed nuclear fuel? Yes, on August 6th, the *Arion*, from Sweden: no giant, and only the second this year, but that's two more than last.

Far to the south walks another group of tourists, the sort that time forgot but wise travel agents don't: a bunch of German pensioners, sweating around a hilly home-counties city in a heatwave. And to judge from the street they're in, they're lost. Unready to see his father's enemies die of thirst as if this were the Libyan desert, your reporter summons up his rusty national-service German. He lives two doors up, could they use a drink of water? They haven't a word of English, but they get the point, and the old folk of Bielefeld will survive, recognising a welcome, one hopes, and ready for Land's End next day—bycoach, heaven help them.

What with high sterling, then foot-and-mouth, the twin towers horror, SARS and Iraq, you might suppose the tourist trade on its knees. It isn't. Total visitor numbers in the first half of this year, at 11m, are a mite up on the same period last year, and a mite down on 2001. The disaster that many thought the Iraq crisis would mean for tourism just did not happen.

What did happen was a slide in one big sector of the market: from January to June, visitors from North America were down by 11%, compared with 2002. But, albeit important, these are only 4m or so in the yearly total of 23m-25m visitors, while 15m or so come from western Europe. Iraq had little effect on the Europeans: their number rose by 5% in the first half of this year.

Not that the hoteliers are happy: airborne Americans stay longer, and spend much more, than coach-borne oldies from Germany. London, which reckons to get 30% of its normal tourism income from Americans, is still suffering, especially at its up-market end, says the British Hospitality Association. Yet even there the trend is up; and many places outside London are doing well enough.

The hoteliers' hard cash, a better guide than mere numbers of bodies, shows the variations, and the trend. London-oriented Thistle Hotels has been squeezed. Yet a big foreign shareholder has just bought it; opportunist, maybe, but the bidder saw a chance, not a black hole. And it was at no fire-sale price that Macdonald Hotels—75 of them, none in London—two weeks ago agreed to a buy-out led by its chief executive. Jarvis Hotels, nearly all outside London, saw exactly the same turnover and profits, like-for-like, in the 12 months to end-March as a year before; and its “leisure” side (as distinct from trade events) has grown decently since.

Outside London, middle-class coastal resorts have been doing well; the heatwave has given working-class resorts such as Blackpool relief from their slow but long decline. Americans tend to stick to London, but visitors from mainland Europe are now ranging ever more widely. And, as Britain's budget airlines get known abroad, and rivals spring up there, increasingly that means to provincial cities. The capital is still the big magnet, but—as has long been true elsewhere in Europe—not quite so big.

Nor are the old attractions so big. The Tower of London last year drew 1.9m people, a 4% fall on 2001; Cornwall's brilliantly publicised Eden Project drew 1.8m, many foreigners among them, a rise of 8%; and

London's Tate Modern, aided by some big-name exhibitions, 4.6m, 30% up and well above the National Gallery. That's where that cruise liner comes in. Barrow may be grey, but it is also a gateway to the Lake District and more. So sell it as such. There are ideas and schemes like that across the land. Large or tiny, brilliant, gimmicky or plain barmy as you may judge them, they show that, whatever else, Britain's tourist trade is not short of imagination.

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Restaurant design

Curry culture

Aug 14th 2003
From The Economist print edition

The fall and rise of a great British art form

FOR the average Indian-restaurant diner, aesthetic considerations perhaps weigh less heavily than alcoholic or pecuniary ones. But even those stuffed to the gills with all-you-can-eat tandoori chicken, saag paneer and Cobra beer will have noticed a change in their surroundings. In the past ten years, the art of the Indian restaurant has experienced not one, but two, fundamental shifts. The classic 1970s curry house—one of the monuments of postwar British design—has died and, mysteriously, been reborn.

The earliest Indian restaurants were virtual palaces. Grandiosely named (Taj Mahal, Maharajah, that sort of thing), covered with luxurious flock wallpaper, and trimmed with fanciful chipboard arches, they married the most extreme and fantastical elements of Indian design to the comfortable, smoke-filled look of the British public house. The most up-market boasted murals of princes, palaces, tigers and scantily-dressed women in rivers. Splendid examples of the genre survive in the Sheba Tandoori, in London, and the Moonlight Tandoori, in Oxford.

Few of the people who created these masterpieces had ever set foot in India. Most Indian restaurants were—and are—owned by Bangladeshi families. And in the 1970s, most of the craftsmen who struggled to translate their wishes into designs were local whites.

Eric Compton, a painter in demand 20 years ago, says: “I had to work out what the restaurant owners wanted. I like traditional Mughal art, and I used to show them pictures from books. But they seemed to prefer Bollywood stuff—girls in saris, with big chests. Sometimes I was able to persuade them that they might have some animals. So we ended up with a kind of mixture.”

In the 1990s, many of the murals disappeared. The first generation of restaurant owners had begun to retire, and their British-born heirs found their parents' taste to be kitsch and old-fashioned. They began to emphasise a new look, exemplified by Café Naz in London's Brick Lane. This featured steel chairs, pine tabletops, and white or yellow walls. In a burst of ethnic pride, many began referring to their establishments as Bangladeshi restaurants. (The food did not change.)

Thankfully, the pace of destruction is now slowing. Murals are even making a comeback, along with plastic elephants and comfortable chairs. Toni Ghani, an interior designer from a restaurant-owning family, says that diners have forced a change away from Japanese-style minimalism: “Customers seem to want the theme-park thing, where the waiters have got turbans on.” Along with others, Mr Ghani is pushing a more colourful, post-modern look that nods in the direction of the 1970s classic. “You're going to see a lot of red,” he says.

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Bagehot

Archbishop Major

Aug 14th 2003
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With the Anglican Communion on the verge of schism, can Rowan Williams learn anything from John Major?

HAVING decided to hold what was instantly dubbed a “gay summit” of the Anglican Communion, the Archbishop of Canterbury, Rowan Williams, retreated “to reflect, to pray, to consult and to take counsel”. Given that the organisation he now heads seems intent on tearing itself apart, his desire to get away from it all is understandable.

The parallels between what is happening to the church today and the drawn-out agony of the Conservative Party over Europe in the 1990s are both instructive and alarming. In each case, a substantial and well-organised minority decided that their views on a particular issue were so strongly held—the European single currency in one instance; homosexual clergy in the other—that group loyalty and obedience to properly constituted authority could be ignored. Dr Williams may be only a few months into the job, but he is already beginning to look like the Church of England's John Major: everyone's favourite whipping boy.

That hasn't happened quite yet. Both sides of the argument still have hopes of him. Liberals who were overjoyed by Dr Williams's accession are convinced that his instincts are with them and that left to his own devices his attitude towards sexuality would be as inclusive as their own. There are echoes here of the rejoicing by Tory Europhiles when Mr Major early on in his premiership declared that his policy was to be at the heart of Europe. However, being left to his own devices is exactly what will not happen to Dr Williams.

Socially conservative evangelicals distrust him, but they think he is frightened of them and can be bullied into appeasement. The shameful treatment of the openly homosexual (albeit celibate) Canon Jeffrey John suggests they might be right. Having supported his appointment as Suffragan Bishop of Reading, Dr Williams then persuaded him to resign in the name of church unity when the extent of the opposition to his appointment became apparent. Threats by evangelical churches to withhold their dues if Dr John was not forced to step down were taken seriously in Lambeth Palace. As a supporter of Dr John observed: “Rowan was taken aback by the size of his mailbag.”

The conservatives have taken further comfort from Dr Williams's response to the latest twist in the crisis—last week's decision by the American Episcopal Church to confirm the election of Canon Gene Robinson, an active homosexual, as Bishop of New Hampshire. Dr Williams commented: “It will be vital to ensure that the concerns and needs of those across the Communion who are gravely concerned at this development can be heard, understood and taken into account.” A couple of days later, Dr Williams announced, under pressure from evangelicals both at home and abroad, the convening in October of an extraordinary meeting of the Primates of the Anglican Communion to discuss the consequences of “recent developments”.

A crown of thorns

Perhaps Dr Williams has a clear idea of what he wants to achieve with this summit of the 38 Anglican primates. But he has admitted in the past to being not much good at strategy. According to those close to him, he seems to be hoping for a miraculous reassertion of the good manners and tolerance that have been the traditional hallmarks of Anglicanism. Fat chance. Too many people are spoiling for a fight.

Anglican Mainstream, a conservative pressure group that emerged from the campaign against Dr John, has been busily pumping up the indignation of evangelical primates from “the global south”, such as the

outspoken Archbishop of Nigeria, Peter Akinola, and the Archbishop of the West Indies, Drexel Gomez. They and the ambitious Archbishop of Sydney, Peter Jensen, argue that the American church should be declared to be in impaired or broken communion following Mr Robinson's appointment. There is also much talk of precipitating a “realignment” of the church if no action is taken against the Episcopalians, which many take to be a threat to remove the Church of England from its position of leadership within the Anglican Communion, or just plain schism.

For their part, the liberals are no longer willing to be rolled over. In a sermon last Sunday, the Dean of Southwark, Colin Slee, said: “Moderate and open people are not good at organised lobby groups and funding, and that may be a good trait, but moderate people also need to recognise that there is a sin called sloth.” The liberals are determined that Dr Williams should use the two-day primates' meeting to confront what one describes as “the blackmail and coercion; the appalling interference in the work of independent provinces”. They point out that if any English province intervened in Nigeria there would be hell to pay. Respect for cultural differences, they claim, should be a two-way street. Given that very nearly all the money that sustains the church in Africa and Asia comes from England and, above all, America, the liberals say that “realignment” is a bluff that Dr Williams should call.

John Major became an object of contempt because of his dogged refusal to preside over the break-up of the Conservative Party. The same fate awaits Dr Williams. He will appear weak by seeking compromise and will disappoint and infuriate nearly everybody. But he may well be right to do so. Great institutions with long histories should try not to destroy themselves over transient issues, however important they may seem at the time or however keenly differences may be felt by individuals. After a while, the Tories realised that their obsession with Europe was not shared by the electorate. The same applies to the Anglican Church's current obsession with homosexuality. It is simply not something that most people in the pews care very much about, whether they live in Oxfordshire or Gambia. It will pass. Dr Williams can at least take some comfort from that.

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Dieting

The Atkins economy

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Corbis

How to lose weight and make money with low carbohydrate diets

“OF ALL the parasites that reflect humanity, I do not know of, nor can I imagine, any more distressing than that of obesity,” wrote William Banting in what was probably the first guide to following a low-carbohydrate diet. After trying all manner of remedies, in 1862 this London undertaker was horrified that he still tipped the scales at 202 pounds (92 kg). A year later, after following his high-protein diet, he had shed 46 pounds. Today he would probably have been a devotee of the Atkins diet, which is having a huge impact not just on the slimming business—worth over $40 billion in America alone—but on the entire food industry.

Unlike a conventional diet, which stresses guilt and abstention, particularly with regard to fats and protein, the Atkins diet encourages feasting on such delights as eggs, bacon, steak and cream (not necessarily all on the same plate) while avoiding carbohydrates, such as bread, potatoes and pasta. Coupled with celebrity endorsements from the likes of Catherine Zeta-Jones and Jennifer Aniston, the promise of munching through so many once-forbidden things to lose weight fast has made the diet enormously successful—especially in America, where nearly two-thirds of the population are overweight.

When the Atkins diet began to take off rapidly in America last year it moved markets, especially for beef, says Charles Levitt, a senior livestock analyst with Alaron Futures and Options, a Chicago trading company. Further afield, as the diet has suddenly become all the rage with blubbery Brits, in recent weeks egg sales in Britain have grown by an unexpected 3%. “If not Atkins, then we are not sure what else has caused it,” says Peter Challands, marketing director of Deans Foods, the country's biggest egg-producer.

Thinner profits

Atkins is also being blamed for others' misfortunes. Unilever, an Anglo-Dutch consumer-products giant, says the diet has eaten into its profits. It is one reason why sales of its SlimFast brand have been hurt in America, the company admitted recently. Weight Watchers, which promotes conventional diet plans with its own celebrity, Sarah Ferguson, Duchess of York, has seen a 6% fall in Americans attending its slimming programmes.

At the same time, a new market is opening up for low-carbohydrate snacks, foods and beverages. No one yet knows if it will be as big as that for low-fat foods, such as “lite” yoghurts and margarines. Nevertheless, the food industry is abuzz with talk about producers preparing various low-carb products to substitute for items on the Atkins blacklist. In Britain this month, Anheuser-Busch, a big brewer, launched its new low-carbohydrate beer, Michelob ULTRA, which has been on sale in America since last year. HVC Lizard Chocolate, a small American firm, has started supplying a sugarless carbohydrate-free chocolate bar called Z-Carb to the 7-Eleven convenience-store chain.

Leading the trend is the business established by Robert Atkins, who died in April, aged 72, from complications after a fall on an icy New York street. His pioneering book, “Dr Atkins' Diet Revolution”, was first published in 1972 and has now sold some 15m copies worldwide—many in the past couple of years. His last book, “Atkins for Life”, has ridden high on bestseller lists since it was released in January—briefly overtaking even Harry Potter. His work challenges many nutritional conventions. Much of his diet's popularity came after some recent studies showed that, at least in the short term, it could work and might lead to improved health.

Yet some scientists are deeply sceptical. They concede that many Atkins followers do lose weight. But they argue that this is probably because they inadvertently consume fewer calories, rather than because of the mechanism suggested by Dr Atkins whereby the body switches from a carbohydrate-burning metabolism to a mainly fat-burning metabolism. That theory is “nonsense and pseudo science,” said Susan Jebb, a nutritionist at Britain's Medical Research Council, on August 12th. Dr Jebb and others expressed concern that, like any extreme diet, Atkins could pose long-term health risks. Tabloid newspapers promptly screamed that the fashionable Atkins diet is “dangerous”.

Atkins officials maintain that the diet is by no means wacky. Atkins Nutritionals, based in Ronkonkoma, New York, is the commercial arm of Dr Atkins's legacy. It is now a multi-million dollar business. From producing mainly dietary supplements, the company now has over 100 food and snack lines. Looking ahead, Scott Kabak, the firm's president, says the main developments will come in low-carbohydrate breakfast cereals, pasta and bread. While he expects plenty of competition for such products, Mr Kabak says the privately held firm has taken out patents and has proprietary use of certain production techniques that he hopes will give it the edge. Atkins Nutritionals also has a strong brand, which he says will be reinforced with new marketing and new books.

But is it just another dieting fad? Linda Huett, the chief executive of Weight Watchers International, thinks so. “Certainly, throughout my career I have seen dozens of extreme diets, including low-carb regimes, come and go, with none of them having any lasting impact on our business,” she recently told financial analysts. Nevertheless, Weight Watchers is revamping its product with the launch in America on August 17th of a new programme called Flex Points, which is supposed to be easier for slimmers to follow.

“I don't think it is a fad,” says Richard Poulson, executive vice president and an adviser to the chairman of Virginia-based Smithfield Foods, the world's largest pork producer and processor and the fourth-largest beef processor. He lost 30 pounds over about four months with the Atkins diet, and thinks Smithfield's new range of lean pork could do well in a growing market for low-carbohydrate foods.

Michelob ULTRA has already been far more successful than Anheuser-Busch expected, says Randall Blackford, the firm's British marketing director. The new beer has a fraction of the calories and carbohydrates of its rivals. It is brewed with an extended mashing time, in which the carbohydrates are broken down into simple sugars that are then fermented into alcohol and carbon dioxide. It sounds simple, but it took Anheuser-Busch some 18 months to produce what they claim is a first-rate premium lager.

And if beer, why not fast food? Imagine if McDonald's were to extend its recent enthusiasm for “healthy” meals, which has led it to promote salads. What might a bigger Big Mac without the bun and fries do to beef, wheat and potato prices?

Nor does the market for low-carbohydrate products necessarily depend on the continuing success of the Atkins diet. While Atkins demands an extreme low-carbohydrate regime, at least in its early stages, many of its rivals also advocate, to varying degrees, a controlled carbohydrate intake. One of them is the intriguingly named “South Beach Diet”, which has recently overtaken Atkins in some best-seller lists. It was written by Arthur Agatston, a cardiologist from Miami Beach.

Competition among diets is fierce. It certainly helps if diets are enjoyable and easy to follow. The once

portly Banting, who lived at 27 St James's Street, London (next door to what is now *The Economist* building) understood that even better than alcohol-sceptic Dr Atkins. In Banting's pamphlet, “Letter on Corpulence”, he suggests for supper three or four ounces of meat or fish, and a glass or two of claret. And, if so inclined, a tumbler of gin, whisky or brandy as a nightcap. Some bright publisher should reprint his advice as the “Banting Plan”—which would surely trounce Atkins in the best-seller lists.

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Ice cream

Melting profits

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Even as temperatures soar, some ice-cream makers are feeling chilly

SWELTERING temperatures from California to Catalonia do not necessarily translate into sizzling ice-cream sales. Ice cream's high sugar content can reduce its appeal on very hot days. Not everyone enjoys licking a jamocha almond fudge cone as it drips down their fingers. More predictably, sales have been harmed for much of this summer by the unusually wet weather on the east coast of America, one of the biggest markets.

Global ice-cream consumption is growing, at most, by a soft but not tasty 1-2% a year. In America, sales fell by 0.4% in the year to early July, according to AC Nielsen, a research firm. Ice-cream makers contend with worries about obesity, above all in America, slow progress in China—ice-cream sales are not now expected to take off there until consumers buy more essential items, such as stoves, televisions and, of course, refrigerators—and rising costs. Cocoa and butterfat prices have gone up, squeezing margins across the board. Vanilla-bean prices have more than trebled in the past two years, due to poor harvests in Madagascar, the biggest producer, and growing demand for vanilla-flavoured drinks, such as Vanilla Coke, in America.

Given modest consumption growth, the giants of the industry have expanded over the past decade mostly by scooping up competitors. Nestlé recently completed a $2.4 billion takeover of Dreyer's Grand Ice Cream, inventor of the Rocky Road flavour (chocolate ice-cream with almond and marshmallow), popular in America. Together, Unilever and Nestlé now have roughly one-third of the global market—and roughly half of the American one. Given such dominance, antitrust concerns may limit further consolidation.

Indeed, the Dreyer's deal helped Coolbrands International, a hitherto obscure Canadian firm, to emerge as one of the biggest second-tier players in North America. In a deal to allay antitrust concerns, Coolbrands agreed to buy two of Nestlé's and Dreyer's brands, plus Nestlé's ice-cream distribution business, which mainly handles the Häagen-Dazs brand. Nestlé has undertaken to channel much of its production through the Coolbrands distribution network during the next five years. Until recently, Coolbrands kept a low profile, producing frozen desserts under other companies' brands—such as frozen versions of Tropicana fruit juices and Weight Watchers' slimming foods. It bought the Eskimo Pie brand in a hostile takeover three years ago, and last year added Chipwich, a venerable make of chocolate-chip ice-cream sandwiches. Now it expects its sales to reach C$750m ($550m) in the year to August 2004, more than four times their value in 2001. Its shares, listed in Toronto, have more than trebled since March.

Given the limited opportunities for further acquisitions, the big ice-cream firms are turning to innovation. Unilever is testing a solar-powered fridge, to be taken to the beach. Its Cornetto Soft brand, launched in Europe in 2001, is dispensed in individual portions from cartridges—making it much easier for retailers to sell the “freshly made” soft ice cream that customers prefer. The firm expects to sell over 100m Cornetto Soft portions this year.

In America, the latest craze, led by companies such as MaggieMoo's of Maryland and Arizona's Cold Stone Creamery, is “mix-in” ice cream, offering combinations of dozens of flavours plus extra bits and pieces mixed on a frozen granite slab in front of the customer. Anyone for a MaggieMoo's grape bubblegum cone with peppermint patties and cappuccino chips? Or is it too hot outside?

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Web logs

Golden blogs

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Blogging, to the horror of some, is trying to go commercial

SOMETHING is afoot in the still rather geeky world of “blogging” that could make publishing web logs as mainstream as e-mailing or instant messaging. AOL, a big internet service provider, is getting ready to offer its members free blogging in a few weeks' time. This follows Google, the world's most popular search engine, which in February bought the company that makes Blogger, a free programme for publishing web logs.

Web logs, known to their users as blogs, are web pages for self-anointed pundits—personal online journals, often updated throughout the day, full of raw, unedited opinions and links to other sites. Most are what one would expect from a new internet medium: nerdy, inane and barely grammatical, and intelligible only to teenage subcultures. But others are erudite and thoughtful—such as andrewsullivan.com, a political commentary. Some are used in business—team members can keep abreast of progress on a project with blogs instead of messy trails of group e-mails. There are blogs for numerous online “communities”, including fat people, vegetarians, and Democratic presidential candidates. By some estimates, 750,000 people now blog, and the number is growing daily.

Because blogging is becoming so popular, people are belatedly pondering its economics. Blogging certainly incurs costs, including the expense for web hosts of storing all those journal entries. On the other hand, it also creates small, tight groups of readers that could make ideal target audiences for advertisers. Like search engines, once considered loss leaders, there is therefore an opportunity for “monetising something cool,” reckons Hal Varian, an economist at the University of California at Berkeley.

The most obvious way to do this—charging bloggers for the software they need to upload their commentary on to the web—is probably not the answer. Some blogging software indeed comes at a price. UserLand, one of the first vendors of blogging software, charges users for some of its products. But the trend is toward free software. Blogger was totally free until Google took it over, and now it charges only for souped-up versions of its programmes—those that offer spell-checking and greater upload power. Internet service providers and web portals are also likely to start offering free blogging to attract users.

A better way to make money may be to target advertising at those users. This is how search engines became profitable. Firms such as Overture (recently acquired by Yahoo!) and Google allow advertisers to bid to place their links on top of the results pages of web searches, according to the subject matter of the search, and charge them only when a surfer actually clicks on the sponsored links. Blogs, like search results, tend to segment internet users into groups of people with similar interests, so the model should be transferable. This is why Google started putting advertising on some blogs after it bought Blogger, says Jason Shellen, who came with Blogger to Google. As with web searches, these sponsored links are related to the topic of the blog. In some cases, when a surfer clicks on an ad, the blog's author gets a share of the revenues.

Even so, blogs are a more challenging proposition than search results. Simple keyword matching to guess at the content of a blog is fallible, says Azeem Azhar, of 20six, a British blogger (and formerly a writer on *The Economist*). This is why the sponsored links on Google's blogs, for instance, get fewer clicks than those on its search results. Algorithms used to intuit what a blog is about will get better, says Mr Azhar, but will remain “an engineer's way of cracking a human social problem.”

A simpler idea is therefore to run member-only blog pages and charge advertisers to sponsor them. This is the model that Tony Perkins, a founder of *Red Herring*, a now-deceased “new economy” magazine, is

pursuing for his new firm, AlwaysOn. Meant to be a “super blog”, says Mr Perkins, AlwaysOn will let only good, insightful bloggers (if such can be found) post journal entries on its pages. This will draw “a higher demographic” of readers and thus better online responses to posts, says Mr Perkins. He expects sponsors to put their logos on blog pages just as they display them in conference halls and at golf tournaments. Some firms—including Accenture, KPMG and Microsoft—are already giving it a try. Mr Perkins expects over $2m in sponsorship revenues this year.

Ur-bloggers, of course, are outraged by all this. “Tony doesn't understand what a blog is; he's the opposite of a blogger,” says David Winer, a fellow at Harvard Law School's Berkman Centre, founder of UserLand and one of the first and longest running bloggers around (his site is www.scripting.com). The key attribute that makes a blog a blog and not some ordinary piece of web publishing is amateurism, says Mr Winer: if it is in any way edited, it is not a blog. From this, incidentally, Mr Winer extrapolates that blogging has “the potential for revolution,” democratising and liberating the world. Mr Perkins in turn feels, wearily, that he has heard such “religiously libertarian anarchists with ponytails screaming and yelling” before, in the early days of the internet. Like many in Silicon Valley nowadays, he is more interested in profits than revolutions—though that change, in its own way, is revolutionary.

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American media

Patent the absurd

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Unintellectual property

AMERICA'S legal system, ever plumbing the depths of lunacy, seemed to hit a new low on August 8th, when Rupert Murdoch's Fox News Channel sued Al Franken, a satirist whose forthcoming book, “Lies and the Lying Liars Who Tell Them: A Fair and Balanced Look at the Right”, mocks Fox and its motto for “fair and balanced” reporting.

What chance has Fox's bid to stop publication on the grounds that the book's use of the words “fair” and “balanced” is trademark infringement and unfair competition? All news channels and reporters claim to be fair and balanced, however biased their output. This is an irony Fox knew of, its suit makes clear, when in the mid-1990s it was launched “as a specific alternative to what its founders perceived as a liberal bias in the American Media.” Given the common usage of the two words, one might equally, as Mr Franken has noted, trademark the word “funny.”

Yet, absurd as it seems, Fox may have a case, says Randy Mastro, a lawyer at Gibson, Dunn & Crutcher. Legally, this is not about two mere adjectives, but protecting a motto built over the past seven years at great cost (Fox says $61m plus thousands of hours of promotion) that is now being expropriated by another for commercial gain. Fox's case is not unprecedented. Spike Lee recently settled litigation with Viacom over its use of the words “Spike TV” for its network.

If the case goes to court, Mr Franken will presumably call Fox's broadcasters liars. Fox's suit notes that Mr Franken is now being described by critics as “unfunny”. Ouch. Yet maybe this spat is just mutually beneficial marketing. Mr Franken has gained priceless publicity. Fox has got many liberals to do what seemed impossible: to associate the words “fair and balanced” with its network.

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The oil industry

Where's the spinach?

Aug 14th 2003
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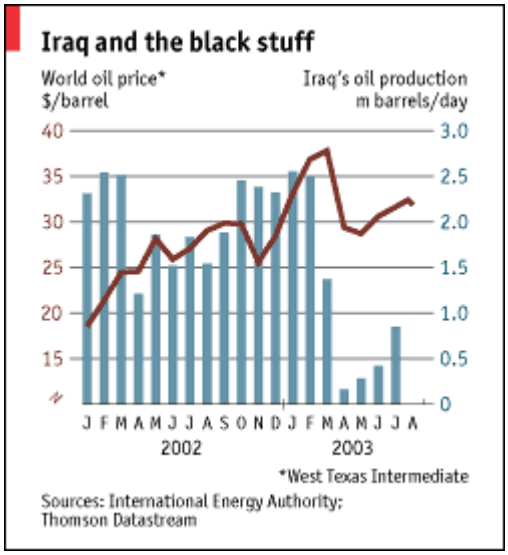
The liberation of Iraq has not yet resulted in low oil prices



“THERE is hope that big industrial countries may soon be flooded with cheaper and more abundant Middle Eastern oil... Cheap oil could be made as reinvigorating to tired western economies as spinach was to Popeye.” So proclaimed a leading article, complete with a striking cover image of the cartoon sailor guzzling petroleum, that ran in this newspaper in February 1983. The irony is that those sentences could equally well have been published in February of this year.

After all, those words seem to capture well the sentiment expressed in many quarters before the American-led coalition's invasion of Iraq in March. Liberating the Iraqi people, some argued, would inevitably lead to the swift liberation of its oil bounty too. As long as Saddam Hussein did not use weapons of mass destruction or wipe out his own oil wells, oil prices would surely tumble quickly. In fact, although prices are below their pre-invasion peak, they remain above $30 a barrel (see chart). There is no invigorating spinach for the struggling global economy. But why exactly are prices so high?

One immediate answer comes from Iraq itself. The war left the country's oil infrastructure largely unscathed, but the chaotic occupation that followed did not. Looting by locals has been a problem. So too have been acts of sabotage to pipelines and other essential bits of the energy system by Saddam's remaining supporters: perhaps two dozen pipelines are reported to have “ruptured” in recent weeks.

Add to that the growing complaints, and associated hesitancy, of contractors worried that Halliburton (a Texan firm formerly headed by Dick Cheney, America's vice president) has sewn up all the worthwhile government contracts in this sector, and you get the current mess. Even Bechtel, another politically well-connected construction giant that had hoped to win a share of the oil-reconstruction bonanza, has declared that it has given up pursuing oil-related contracts in Iraq from the American authorities. The firm has indicated that it now intends to wait for a permanent Iraqi government to emerge before looking for more oil work. Thamer al Ghadban, the interim head of the state oil sector, recently said that July was a “turning point”. On August 13th Iraqi oil started to flow along a pipeline to Turkey. Yet Iraqi output is still probably less than half of its pre-war peak of around 3m barrels per day (bpd).

Of course, the situation in Iraq is only one reason why oil prices are high. Stocks of oil are now relatively low in OECD countries. Europe's heatwave and Japan's nuclear shutdown have indirectly boosted oil consumption. Oil demand in China, which some had thought would be deeply depressed for a long time following the SARS epidemic, has proved robust. It is the confluence of these factors, plus the Iraqi shortfall, that explains today's high prices.

That, at least, is the conventional wisdom in the oil industry. Phil Verleger, a veteran energy economist, argues that all this is just plain wrong: “Iraq is pretty much irrelevant today, as are Venezuela, Nigeria, Russia and other producers. The story is Saudi Arabia.” He is convinced that the Saudis have single-handedly kept prices from falling sharply, as they otherwise probably would have done after the swift and successful invasion of Iraq, by sharply reducing their own exports. He calculates that, over the past two months or so, the kingpin of the OPEC cartel has cut production by around 1m bpd. He adds, “They could easily cut another million if conditions warranted and their production level would still be above that of January 2002, the five-year low for Saudi output.” His analysis suggests that oil prices might remain

buoyant for some time yet.

Even so, history suggests that high prices will not last forever. In time, Iraqi output will rebound. Other producers, tempted by the high prices that the self discipline and self denial of the Saudis make possible, will expand output. As that happens, the Saudis will inevitably throw open the taps to regain market share, as they have done under similar circumstances in the past. That is why consuming economies will get the lower prices that they crave, sooner or later.

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Energy

These fuelish things

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Fuel cells are starting to transform the power-generation business

TIMES SQUARE, once cheap and tawdry, is now squeaky clean. If you don't believe it, just visit the shimmering Condé Nast building on the south-eastern corner of the square. This newish skyscraper is home to such stylish magazines as *Vogue* and the *New Yorker*. But the sexiest things in this building are not the celebrities and models to be seen in the stunning cafeteria designed by Frank Gehry: they are the two truck-sized fuel cells tucked away on an unoccupied floor of the building.

Fuel cells—big batteries that combine hydrogen and oxygen to produce electricity while emitting no nasty pollutants—are the next big thing. Most media coverage has focused on efforts by car firms to use cells to replace internal-combustion engines. But quietly, fuel cells are beginning to pop up in fixed, rather than mobile, power applications. Most, like those in Times Square, extract their hydrogen from the local natural-gas supply. Environmentalists hope that, one day, they will use hydrogen derived from solar or wind energy. Yet there may be room in that clean energy future for fuel cells that use hydrogen taken from the nastiest—but cheapest and most plentiful— hydrocarbon of all: coal.

On August 13th, government officials, utility men and fuel-cell enthusiasts gathered in West Terre Haute, Indiana, to celebrate the dedication of the world's first industrial-scale fuel cell that uses hydrogen derived from coal to produce electricity. Jerry Leitman of Fuel Cell Energy, which manufactured the coal-chomping cell in question, vows it will deliver “ultra low emissions and high efficiency”. Is he joking? Not at all. Unlike combustion plants, which emit many nasty pollutants when they burn coal, fuel cells avoid combustion both in how they generate electricity and in the method of extracting hydrogen from coal. As a result, the new power plant really does emit only a tiny fraction of the pollutants from an ordinary coal plant.

Though fuel-cell technology is still developing, the cells' costs will need to fall four- or five-fold to match conventional generation technologies. This is quite likely, especially as they enter mass production. Besides, thanks to the relative cleanliness and greater reliability of cells, customers may be willing to pay a premium over the price of power from the creaking old grid. That is why firms such as Siemens and United Technologies (which produced the cells in the Condé Nast building) are investing in stationary cells. Allied Business Intelligence, a consulting firm, estimates that global fuel-cell energy-generating capacity will increase to almost 16,000 mW by 2012—enough for 16m households—from 45 mW in 2002. Jan van Dokkum, the head of United Technologies' fuel-cell operations, believes that the trend away from giant power plants and toward micropower means that this market will soar by 2007 or 2008.

Mr Leitman agrees, citing Thomas Edison's original vision of electrification through micropower as the guiding vision for energy in future. Fittingly, one of the most formidable entrants into the fixed fuel-cell market is General Electric, a firm known today for (among other things) making the big sort of power plant—but which was, over a century ago, founded by Edison himself to spread micropower.

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African gold

Big-game hunting

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From The Economist print edition

Who will bag Ashanti?

FEW companies are dearer to their home countries than Ashanti Goldfields is to Ghana. That is why a recent brace of bids from South African competitors for the gold producer—one long in the works from AngloGold, for shares worth $1.1 billion, and a late entry from Randgold, for shares initially worth $400m more—are making for a takeover battle that is likely to be as much about politics as economics. The biggest wrinkle is that 17% of Ashanti is owned by the Ghanaian government, which also has a golden share giving it the right to veto any takeover.

Ghana's government is no doubt keen to save face as it sells off its crown jewel. Just four years ago, Ashanti was nearly brought to its knees by, ironically, rising gold prices. That was thanks to its use of derivatives, sold to it by sophisticated European and American banks, that were designed to reduce Ashanti's exposure to falling gold prices, but which ended up presenting the firm with a $500m margin call. With the firm facing bankruptcy, the government rejected plans for a takeover. Ashanti instead gave its banks warrants for shares, diluting existing shareholders, including the government. That debacle left Ashanti with a weak balance sheet, still fragile despite steadily rising gold prices in recent years. It also had to sell 50% of its new mine in Tanzania to AngloGold.

That relationship is only one reason why the bid by AngloGold is still likely to succeed—thus restoring the firm, by a whisker, to its position as the world's largest producer of gold. Bobby Godsell, AngloGold's boss, and Sam Jonah, Ashanti's charismatic leader, are close friends. AngloGold promises to invest hundreds of millions (perhaps even $1 billion) in Ashanti's Obuasi mine in Ghana, and has made the right noises about preserving jobs and even expanding Ashanti's headquarters in Accra. AngloGold has better technology for deep mining, which could greatly assist Ashanti.

But AngloGold will not find it as easy as it hoped to bag its prey, thanks to Randgold's intervention, announced just after AngloGold had gone public with a formal bid. Randgold's offer seems especially odd, given that the company is just half the size of Ashanti and operates but a single mine, in Mali (jointly, with none other than AngloGold). It has neither the technological advantages of AngloGold nor the bigger firm's access to finance. But Randgold certainly knows how to play to local sentiment: its main appeal seems to be that it would put the word Ashanti first in the merged firm's name. (AngloGold will call itself AngloGold Ashanti everywhere except Ghana, where it will be, yes, Ashanti AngloGold.)

Whether or not Randgold's bid is serious, it will probably have the effect of putting pressure on AngloGold to offer more for Ashanti. That should please shareholders mightily, especially Ghana's government. One South African newspaper report even suggested that Ghana's minister of mines solicited the Randgold offer, hoping to force up the bidding. Another big shareholder, Lonmin, a British mining firm, made clear that it was open to competing offers, after it had earlier seemed to have announced its acceptance of AngloGold's terms.

For Mr Godsell, this may be a make or break deal. He now seems to fancy himself as the pied piper of pan-African economic integration. He sees the merger not only as logical in business terms, but more grandly as a symbol of Africa's glorious future. That will please South Africa's President Thabo Mbeki, the driving force behind the pan-African New Partnership for Africa's Development. More mundanely, having lost out to America's Newmont in the battle over Normandy, an Australian miner (which made Newmont the world's biggest gold miner), this may be Mr Godsell's last chance to reclaim the top spot for AngloGold and, perhaps more usefully, to diversify his mining assets away from South Africa—where there are big political risks ranging from policy to tackle AIDS to the taxation and regulation of mining. (Not that Ghana necessarily involves any less political risk than South Africa.)

American and Canadian giants, such as Newmont or Barrick, could afford to pay more for Ashanti. However, despite speculation that they may do so, neither has yet come forward—perhaps because they fear political obstacles. Even if one or both did join the hunt, they might not win. When it comes to the pursuit of an African champion, money may not be everything.

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Face value

Scandal in Shanghai

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Why Zhou Zhengyi's troubles continue to make China's new capitalist elite nervous

Chen Yaoguo

ONE of Zhou Zhengyi's mistakes may have been that he chose to flaunt his wealth. After the *Forbes* list of China's 100 richest people placed him a mere 94th two years ago, the flamboyant property developer complained that he should have been higher. Last year he was 11th and revelled in the media-bestowed sobriquet of richest man in Shanghai, though he probably wasn't. Mr Zhou had a collection of sports cars to match his ego and delighted scandal-hungry newspapers in Hong Kong, where he controlled two listed firms, with his sexual affairs.

Now Mr Zhou, 42, is being investigated for business irregularities. According to the Chinese press, he is suspected of illegally acquiring state land and bank loans. The question is, why Mr Zhou? China's business culture sets far more store on personal connections than it does on laws and regulations. If they wanted to, China's authorities could probably find grounds for accusing most of the country's richest people of bending (if not breaking) the rules. But China's legal culture thrives on the principle of “killing the chicken to scare the monkeys”. Mr Zhou, valued by *Forbes* last year at $320m, was a conspicuous potential chicken.

The secretive handling of the case suggests that politics is at play too. Soon after Mr Zhou's arrest in late May, the official media were ordered to say no more about the affair. The government is partly worried about giving the country's financial capital a bad reputation among foreign investors. But the worry also is that investigations of land dealings on the scale of Mr Zhou's might expose high-level corruption in the city, possibly implicating protégés of China's former president, Jiang Zemin, who still chairs the powerful military commission and has close ties with Shanghai. Mr Jiang's political rivals—notably China's new leadership team of President Hu Jintao and Wen Jiabao, the prime minister—might relish an opportunity to discomfort Mr Jiang. Perhaps they chose to make an example of Mr Zhou.

The gag order on the press has not been entirely effective. At least two magazines have published cover stories on Mr Zhou, whose rags-to-riches story and precipitate downfall provide salacious reading. That is a key consideration for China's increasingly market-oriented media, which are now gunning for many of China's super-rich. The *Forbes* rich list that Mr Zhou sought to climb has been dubbed a “death list” because several on it have been arrested on charges ranging from fraud to tax evasion.

China Daily, an official paper, says that Mr Zhou's case and the sentencing in July of another Chinese tycoon, Yang Bin, to 18 years in jail for commercial crimes has put the integrity of China's *nouveaux riches* under “increasing scrutiny.” Another official paper says that banks have become even more reluctant to lend to private firms and that the approval process for public listings by such firms will become even tougher.

Ironically, it is precisely the difficulty of getting bank loans and listings (a legacy of communist prejudice against the private sector) that fosters a gambling instinct and creative approach to the law among ambitious Chinese entrepreneurs. Mr Zhou's path to riches is one that many on the rich list would find familiar. Ten years ago the high-school dropout was running a restaurant and trading building materials in Shanghai. But, according to China's media, it was playing the infant stock markets and trading in copper futures that brought Mr Zhou the biggest returns and enabled him to move into the property business.

Capitalism the Chinese way

Property deals feature in many of China's biggest recent scandals. The government owns all land in China, which creates opportunities for corruption when usage rights are sold to developers. This year Shanghai began requiring that commercial land-use rights be sold by public auction. But deals are still often made with whichever developer offers the biggest kickbacks. Mr Zhou obtained land cheaply by offering to pay for the resettlement of residents. This year residents of a plot he acquired in the city centre complained they had not been given enough cash to buy new homes. Fearful that such grievances could strike a chord with many in the city and trigger unrest, in June the Shanghai authorities arrested, of all people, the lawyer representing the residents, accusing him of stealing secrets.

Corruption also pervades China's banking system. Since Mr Zhou's detention, China's central bank has tried to restrict lending to luxury development projects, reiterating often ignored rules that developers can borrow no more than 70% of building costs or 70% of the price of land-use rights. One aim is to deflate an alarming property bubble that is developing in some cities. But the government is also anxious to limit the poorly secured loans that have helped to enrich many of China's developers.

A senior Chinese banker originally implicated in Mr Zhou's case, Liu Jinbao, who headed the Bank of China's Hong Kong branch, has reportedly been cleared of making an improper loan to Mr Zhou's unlisted holding company in Hong Kong, New Nongkai Global Investments. The $227m facility enabled Mr Zhou to buy 75% of a Hong Kong-listed investment company whose name he changed to Shanghai Land Holdings. Mr Zhou used this firm to buy some of his Shanghai properties. The general manager of the Bank of China's Shanghai branch was dismissed last month for making a “huge amount of troublesome loans” to another Shanghai developer, Qian Yongwei. Mr Qian was detained on May 26th, the same day as Mr Zhou. Formal charges have yet to be made against either of the businessmen.

What does this all mean for China's new rich? Rupert Hoogewerf, the Shanghai-based compiler of the rich list, says some entrepreneurs in the city feel that Mr Zhou's detention was unfair, that he was caught even though “a lot of people have been doing similar things.” Until the charges are made clear, he says, Mr Zhou's fellow tycoons are keeping a low profile.

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Bank lending

Who's carrying the can?

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Banks are shifting vast amounts of their lending risk out of the banking system. Healthy diversification, say some. Dangerous, say others

THE world's leading banks decided some years ago that lending is a mugs' game. They began to get rid of their loans, repackaging them and selling them off as securities, or getting others to re-insure their risk. And the policy has been bearing fruit. The glut of corporate bankruptcies in 2001 and 2002—including the two biggest of all time, Enron and WorldCom—have not had the devastating effect on the big banks' balance sheets that might have been expected. The two biggest banks in America, for instance, have hardly registered a tremor. Citigroup's profits for the second quarter of this year were $4.3 billion (12% up on a year earlier), and those of J.P. Morgan Chase were $1.8 billion for the same period (78% higher than last year).

Alan Greenspan, chairman of America's Federal Reserve, said in a speech in May that this spreading of the banks' risks has made the financial sector more resilient, and individual institutions within it less vulnerable to shocks. It can indeed be argued that the world's financial system is safer if banks carry less of the overall credit risk. Their previous mismanagement of credit has caused so many damaging banking crises in the past; and banks, with their unique role in the payment system and the distribution of liquidity, are prone to systemic risk in a way that is not true of other financial institutions. Better, in that case, that they are strong, and that risks and losses are borne by a wider investment pool.

Others, though, are less sanguine. They fear that credit losses, buried today, will show up in new places later, causing unpredictable damage deep in the world economy.

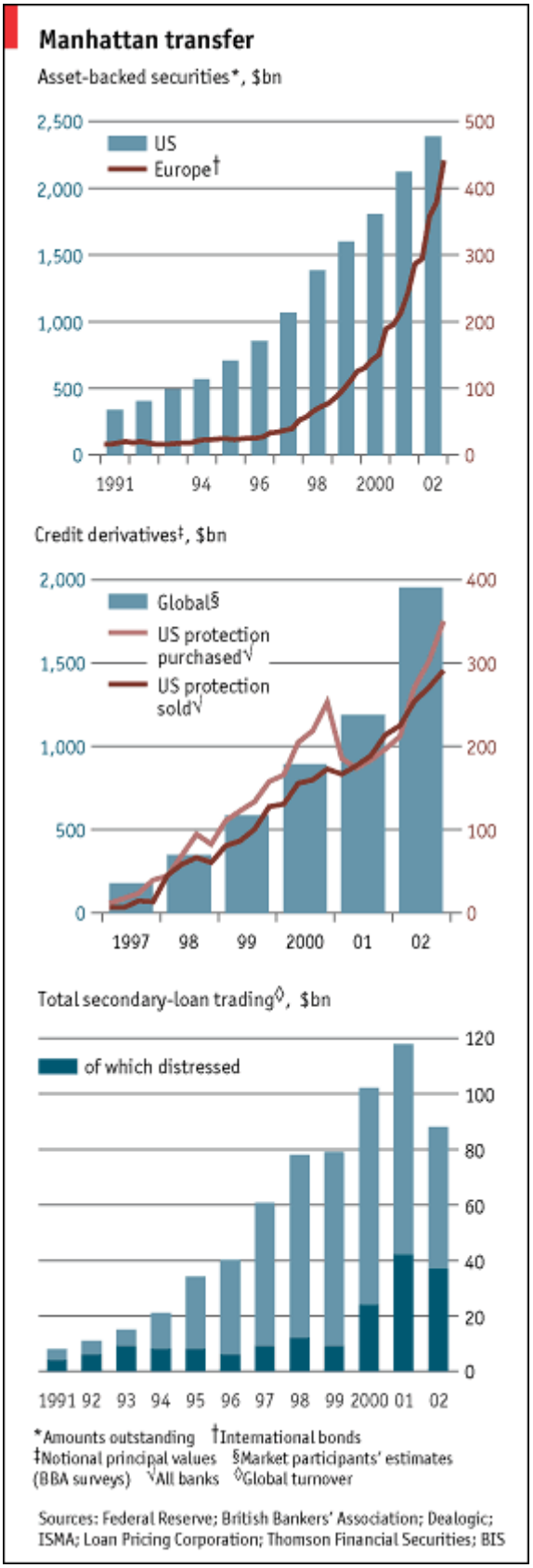
Certainly, there is a conundrum. Loans of some $34 billion were wiped out in the bankruptcies of Enron and WorldCom alone. Yet only millions, rather than billions, of losses are showing up in the quarterly reports of big financial institutions. Where have all the losses gone, if not through the profit-and-loss accounts of the few big banks that do most of the lending to giant corporations? One theory is that they have ended up on the books of insurance companies which, since they record loan losses just as they would a property or casualty loss, are under no obligation to reveal them separately in their accounts (as banks do). But analysts and central bankers do not have a complete picture of where the banks' risks have ended up.

One thing is certain. Such risk does not neatly disappear into thin air. In a weak economy, bad debts increase and banks traditionally take a big hit. If they are not taking the hit in this economic slowdown, then somebody else is. Credit risk is like air in a squishy balloon. You can squeeze the balloon into any

shape you like, but the air does not disappear.

Risk shifting

In its annual report in June, the Bank for International Settlements drew attention to the huge growth of credit-risk transfer—the shifting of risk from banks on to the buyers of securities and loans, and on to the sellers of credit insurance. In the early 1990s, the transfer involved a few billion dollars-worth of loans; by 2002, that figure had grown to more than $2 trillion (see chart). “The markets lack transparency about the ultimate distribution of credit risks,” it wrote. “Some market participants may take on more risk thanothers...or the authorities, are aware of.”



The risk, and the losses that inevitably flow from it, may be being redistributed to entities that are less well capitalised and less expert in analysing borrowers than banks. Moreover, they may be feeding through to places where they could eventually be socially and politically painful—for example, to pension funds, mutual funds, or life-insurance policies.

There is some evidence to show that these institutions are worse at evaluating and managing credit risk: in the three years to 2003, non-bank financial institutions took an increasing share of syndicated bank loans. At the end of 2002, they had 10% of the syndicated loan market in the United States. Yet their share of the bad and doubtful loans within that market was 22.6%. “The transferors may have proper insight into the nature of the risks,” said Sir Andrew Large, deputy governor of the Bank of England, in a recent speech. But “are the transferees actually aware of the risks they have taken on? And are they in

the best position to monitor these risks as they evolve?"

Over the past 30 months one big bank, Deutsche Bank, has reduced the loans on its books by over 40%, from *euro*281 billion to *euro*165 billion ($264 billion to $187 billion). And the reason is not hard to find. Loans produce on average only half the 15% return on equity that banks and their shareholders demand these days. Until that changes, through regulation or by a reduction in the number of banks, bankers who do their sums will continue to unload their loans on to other parts of the financial system whenever they can.

Deutsche Bank is the most dramatic example, but other big banks also shrank their loan books in 2002: ABN Amro by *euro*34 billion, Credit Suisse by SFr12 billion ($8.6 billion), and UBS by SFr10 billion. Many banks have reduced their exposure to risk even more with the purchase of credit derivatives, a form of credit insurance. A worrying factor for regulators is that a good chunk of that credit insurance has been provided by smaller, regional banks which may have misjudged the risk as well as the price put on it.

Forthcoming bank regulation is likely to strengthen this trend. New rules on how much capital banks must hold, due to come into force in 2007, will make certain types of lending even less profitable—in particular, loans to medium-sized businesses, arguably the very group that needs banks the most. Lending between banks could also shrink, leaving smaller banks less liquid and more vulnerable to shocks. Some of the world's top bankers are currently asking regulators to look again at the potentially perverse consequences of these new capital rules.

For the moment, the incentive to banks is to make loans that are not sufficiently profitable, but that they know can be sold to entities that face lesser regulatory and capital costs. This is a form of arbitrage that is driving credit risk out of institutions where it is well understood and managed, and into institutions where it is far less so.

The powers behind the throne

What started as a trickle two decades ago has become a torrent. In the 1980s, American banks started to bundle together a number of mortgages that they had on their books, and to issue securities backed by them. Those securities they then sold off to others. After mortgages, they moved on to other sorts of consumer lending: credit-card receivables, car loans, commercial property loans and so on. The rationale was that they could make more money by generating the business (and the fees associated with it) than they could by holding on to the loans until they matured. All they needed was to find investors who were happy to take the loans (and their associated risks) off their back.

In the early 1990s, that was not difficult. In a climate of falling interest rates, investors who were once happy investing in low-risk treasury bonds were tempted to look for a higher yield, accepting that this meant a higher risk of default.

They were helped in their search by the credit-rating agencies (of which there are only three that matter: Standard & Poor's; Moody's Investors Service; and Fitch). On the basis of its own data and details given to it by the banks, a ratings agency can produce a reasonably independent assessment of, say, the likely number of defaults in a pool of residential mortgages from Minnesota, under different interest rate conditions. A bank, naturally, has an interest in getting the highest possible rating for any pool of its assets. The rating agency has a tendency to be sympathetic since the bank pays its fees. This has radically changed the function of big banks. The traditional image of the great banking hall and the armoured vaults stuffed with bullion has little to do with the way banks make their money. These days they make loans and then pass them on as quickly as possible, pocketing the margin. That leaves them more room to take bigger risks elsewhere: in trading securities, derivatives, and foreign exchange, for example, or investing in private equity.

These days banks make loans and then pass them on as quickly as possible, pocketing the margin. That leaves them more room to take bigger risks elsewhere

Two other developments have allowed banks to grow as conduits of risk rather than as holders of it. In the early 1980s, after Mexico, Brazil and various other countries defaulted on their debt, banks had to accept that their loans to such countries were worth considerably less than 100 cents in the dollar. So, as the countries in default negotiated with their creditor banks, some banks decided to get rid of their country loans at a discount.

A secondary market for these loans began to develop, and it spread from trading in sovereign debt to trading in corporate debt as well. Some big banks, notably J.P. Morgan in America and Swiss Bank Corporation (now part of UBS) in Europe, made a virtue of holding as little sovereign and corporate debt on their balance sheets as they could get away with. Other banks followed suit. Nowadays big banks sell as much as possible of their syndicated loans to those remaining smaller, traditional banks whose main business (even today) is taking short-term or medium-term deposits and using them to make longer-term loans to consumers or companies. Such banks are growing scarcer.

Derivative issues

The other development that has made credit risk even less likely to stay on banks' balance sheets is the business of credit derivatives. A buyer of a credit derivative buys insurance relating to a single company, from a seller. If the company defaults, the seller of the protection makes good the loss.

Credit derivatives began in a small way in the mid-1990s. By 2000, there was $800 billion-worth outstanding, and by 2002 the total was close to $2 trillion. That means there is credit insurance outstanding on a notional $2 trillion-worth of bonds and loans. The derivatives bought and sold can exceed the credits outstanding. Nevertheless, those who have bought the insurance have $2 trillion of protection—which might mean that there are plenty of firms in the financial markets, with net long positions, who are either indifferent to, or even eager for, the default of particular borrowers.

Fitch, one of the big three credit-rating agencies, quizzed 150 participants in the credit-derivatives market and found that banks in the United States and Europe are net buyers of credit protection, to the tune of nearly $190 billion; insurance companies and other financial organisations are net sellers, to the tune of $300 billion.

This has radically changed the relationship between lenders and borrowers. A lending bank may have gone through all the necessary credit checks before making a loan, but if it buys credit protection, it passes the worry on to somebody else—an investor or a bank with no relationship to the borrower. Inevitably, saving companies from bankruptcy has become a more complex task than ever before.

Saving companies from bankruptcy has become a more complex task than ever before

Capital ideas

In many ways, credit-risk transfer can be seen as a positive development. If the risks are properly analysed, why not package them and sell them to those with a more appropriate appetite? One part of the answer is that these buyers with the right appetite are not regulated in the special way that banks are.

For at least two centuries governments have recognised the importance of maintaining a healthy banking system in order to ensure timely payments and keep the wheels of commerce turning. The key is to have a central bank (or monetary authority) that provides the banking system with cash if it runs short. If there is a widespread “liquidity crisis”, a central bank steps in and, *in extremis*, its government prints more money. To reduce the likelihood of that, most governments also have rules on the capital that banks must carry in order to cushion themselves against unexpected shocks.

Widely accepted rules for bank capital have been in place since 1988. But loopholes and fancy new instruments have rendered them increasingly unsatisfactory. Hence new rules are being prepared which will make it more costly, in terms of the capital they must hold, for banks to keep certain types of credit risk—in particular, exposure to poorly rated companies, or to companies that are so small that they have no credit rating. The rules are not due to bite for a number of years, but already they are changing banks' behaviour and giving them even less appetite for all but the highest quality risks.

Loopholes and fancy new instruments have rendered accepted rules for bank capital increasingly unsatisfactory

This would be fine if there were risk-takers elsewhere in the financial system equipped to evaluate, take on and manage credit risk. But there aren't. Whereas Deutsche Bank has 3,500 credit analysts, most institutional investors (such as insurance companies or pension funds) do not have specialised credit departments at all. Yet, in the past few years,

these institutions have sought more esoteric credit risk, for potentially higher rewards. Part of the incentive has been the poor performance of equity markets. Where else could they get even close to the returns that they were getting on equities in the late 1990s?

In their hunger for higher yields, insurance companies in particular bought portfolios of loans from banks, or guaranteed them against loss by selling credit protection to the banks. Since they did not have their own credit departments, the rating agencies were their chief guide to the potential riskiness of what they were buying. Their ratings are usually a reasonable guide to the risks of single companies or countries in normal markets. But credit risks bundled up (as they are in the case of asset-backed securities sold by the banks) defy the predictions of most mathematical models. Those that included loans to airlines and technology companies, for example, have involved investors in considerable losses recently—far more than the original credit ratings allowed for, and often more than direct loans to the individual companies would have done.

Several insurance companies which specialise in financial guarantees suffered last year from the deterioration in the quality of their assets. New accounting rules forced them to disclose the mark-to-market losses on the portfolios that they have guaranteed. An American credit guarantor, Financial Security Assurance (FSA), recorded losses of $91m on guarantees for $75 billion of securitised credits. Rivals also suffered losses. After their experiences in 2002, some insurance companies—such as Swiss Re, Chubb and SCOR—decided to write no new credit insurance.

Bundled up credit risks defy the predictions of most mathematical models

Should the regulators be indifferent to these unexpected consequences of credit securitisation? Central-bank studies on credit-risk transfer have concluded that the financial system seems to be coping with the change. On the other hand, some of the risk may have become invisible. It could be a time-bomb sitting in the portfolios of scarcely regulated offshore insurance companies, for example.

Out of sight

Some regulators are beginning to worry about who should be the proper holders of credit risk in a sound financial system, and whether too much credit risk has passed beyond their purview. Equally, there are bankers who blame bank regulators for insisting that large amounts of capital should back bank lending, thereby causing such lending to be unprofitable for them. “No bank ever went bust for want of capital,” says one senior banker. “They go bust because of bad management.”

Banking systems can be too sound, and the expense of maintaining such a failure-proof system is ultimately borne by other parts of the economy. If sound banks are not performing their lending function, what economic use are they? This has been a particular dilemma in central Europe, where banks were cleaned up at vast expense, often ending up in foreign hands. They have then done little local lending, partly because of worldwide bank capital standards. Instead, they have invested in low-risk government bonds.

With lower capital charges for loans, some bankers argue, big banks would keep more of the credits they originate on their own books. Yet the new bank capital rules are likely to raise capital charges and make lending even less profitable.

Sometimes the course of the financial-services industry needs a correction. Recently, regulators have concentrated on restoring ethical behaviour after a decade of wantonness. Now may be the time for them to look more carefully at the effect of that tumultuous decade on the structure of credit markets, and the function of the institutions within it. If they don't, the process of credit-risk transfer will simply accelerate—with unpredictable and possibly painful consequences.

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WTO trade talks

An agreement to deal

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The Doha trade round may be back on the rails

IMPENDING doom does wonders at the negotiating table. Until this week, after four years of bitter arguments and missed deadlines, it looked as if disagreements on agriculture would sink the current multilateral trade round at the World Trade Organisation, known as the Doha Development Agenda. A failure of Doha, so soon after the Seattle trade talks failed in 1999, would have been terrible news for free trade.

After August 13th that seems less likely to happen. A joint proposal by the United States and the European Union, announced that day, appeared to have buried some of their many differences and come up with ways to move forward on agriculture. The agreement was vague, and there remains the small matter of getting the 131 other members of the WTO to sign up to it. But when the two trade giants are working together rather than fighting (which they do a lot), they tend to get more or less what they want. An agreement between America and the EU was deemed necessary, though not sufficient, to get things going again.

It was at the end of July that other WTO members first asked America and the EU to “do some homework together”. Their joint proposal this week leaves less than a month before the trade summit at Cancun, Mexico, at which ministers of WTO member states are hoping work on new multilateral trade rules.

The proposal starts brightly: “Members reconfirm the objective to establish a fair and market-oriented system through fundamental reform in agriculture.” Most WTO members have been clamouring for this for years. Some—the Cairns Group of 17 agricultural exporting countries, including Australia and Brazil—have competitive agricultural sectors, while others have large numbers of subsistence farmers that they cannot afford to protect or support. In both cases, a commitment by rich countries to reduce agricultural protectionism and unfair trade methods is seen as an essential part of any deal.

Indeed, the current agricultural trade rules are an affront to the principles of free trade and fairness that the multilateral trading system is meant to embody. The Uruguay Round's agricultural agreement exempts farm products from standard trade rules. Almost everyone is worse off as a result. Farm subsidies amount to $300 billion a year, paid for by taxpayers. Import restrictions and tariffs have kept food prices high for consumers, and 96% of the world's farmers, who live in poor countries, lose out on both world and local markets.

Unfortunately, the actual measures proposed by America and the EU fall some way short of their optimistic opening shot. If the proposal does not change, many protectionist measures will be retained. Some export subsidies and credits will be kept. Import tariffs for many sectors look like being subject to a uniform percentage cut for all, even though most countries want a more ambitious formula that would force countries with the highest tariffs to make the largest cuts.

The proposal would cap some trade-distorting payments as a share of total agricultural production at 5%. But this is much less significant than it seems: it ignores many other distorting payments. And, conveniently, most of the European and American farm subsidy programmes, which at $88 billion and $52 billion a year respectively are among the world's most lavish, are deemed not to be trade distorting. Oxfam, a British campaigning group, labelled the text “extremely disappointing”. Several developing countries, including India and Brazil, also complained that it gives them too little.

In addition, no one knows what numbers might eventually fill the many blanks deliberately left in the document. Certainly, farmers' lobbies in rich countries will do everything in their power to keep commitments to liberalise at a minimum.

Allen Johnson, the chief American farm-trade negotiator, recognises that the deal “doesn't answer every question” but argues that this will allow other WTO members to share the decision-making. America and the EU want to avoid having their back-room negotiations portrayed as a repeat of the 1992 “Blair House Accord”, when they cut a bilateral deal on agricultural trade and presented it to the rest of the world as a *fait accompli*.

It is unlikely that any country will reject the proposal outright. At least there is now a framework, however empty it seems. As David Spencer, the Australian ambassador at the WTO, points out, just finding common ground was an achievement for America and the EU.

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Europe and America

Europe's speed restrictions

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Why have the economies of the euro area looked more sickly than America's since the stockmarket bubble burst?

EUROPEANS beat Americans hands down when it comes to grabbing the best sun loungers. Sadly, their economies are much less speedy. Germany's GDP fell by 0.2% at an annual rate in the three months to June, the third consecutive quarter of decline. Italy and the Netherlands are also in recession. Even including economies that are growing, such as Spain and Ireland, the euro area as a whole stagnated in the second quarter. By comparison, America's GDP grew by a respectable annual rate of 2.4%.

If the surge in defence spending during the Iraq war is excluded, America's GDP grew by less than 1% in the second quarter. Moreover, surveys of business and consumer confidence suggest that the euro area economies should perk up in the second half of this year—but not as rapidly as America's. In *The Economist*'s latest poll of forecasters, every member of the panel expected significantly faster growth in America than in the euro area this year and next. For 2004, the panel is forecasting only 1.7% growth in the euro area, against 3.4% in the United States.

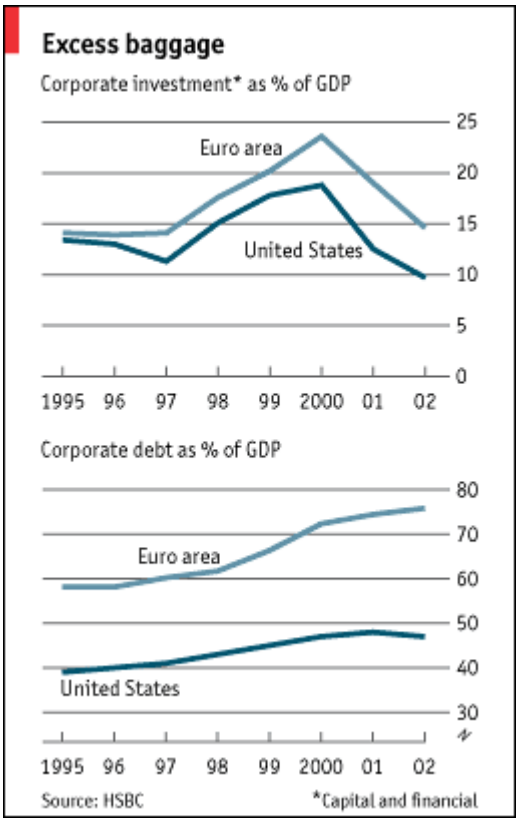
If this is right, America's economy will have expanded by a cumulative 8.6% in the four years since its bubble burst, compared with only 4.8% in the euro area. But these numbers exaggerate America's superior performance because its population is growing faster. Over the four years, America's GDP per head will have grown by an annual average of only 1% a year, roughly the same as in the euro area.

Yet this still leaves a puzzle. The few economists who spotted that America was experiencing a giant bubble in the late 1990s correctly forecast that its growth would slow sharply when that bubble burst. But they expected that the European economies would then start to outperform. After all, European households own far fewer shares than do their American counterparts, so consumer spending should have been hurt much less by a plunge in share prices. Likewise, it was argued, the excesses created by the stockmarket bubble, such as the level of private-sector borrowing and widespread corporate malfeasance, were less severe in the euro area. In 2001, as America dipped into recession, the euro area briefly grew faster, but since then it has lagged badly behind.

European policymakers like to blame all of the euro area's economic woes on inflexible labour markets and high taxes. These have surely played a role, but only a minor one. A more important explanation for Europe's recent poor performance is that over the past three years America has enjoyed much looser monetary and fiscal policies, which have bolstered consumer spending. Adjusting for the impact of the economic cycle (deficits widen in downturns as tax revenues shrink), America's structural budget balance has shifted from a surplus of 1% of GDP in 2000 to an estimated deficit of 4% this year. Over the same period, the euro area has seen no net fiscal stimulus. Interest rates have fallen by 5.5 percentage points in America, twice the fall in the euro area. A weaker dollar is also helping to boost American exports and company profits. The combined stimulus has helped to cushion what would otherwise have been a much steeper downturn in the United States.

The common belief that the United States experienced a much bigger bubble than the euro area is also false, so far as the corporate sector is concerned. A recent study by HSBC finds that, during the late 1990s, European companies went on an even bigger borrowing and investment binge than did corporate America. European share prices rose by just as much as those on Wall Street (and have since fallen by more). From the mid 1990s to 2000 companies' capital investment, measured in nominal terms, rose more sharply as a share of GDP in the euro area than in America. (In real terms, American capital investment rose faster, because IT equipment accounted for a bigger slice of the total, and the prices of computers fell sharply.)

Corporate financial investment also rose more sharply in Europe, largely because of the M&A boom. As a result, total corporate investment (capital and financial) in the euro area rose from 14% of GDP in 1997 to 24% in 2000, eclipsing America's investment boom (see chart).



European firms' corporate-financing gap (investment minus internal funds) rose from 4% of GDP in 1997 to a record 14% in 2000 and most of that was filled by debt rather than equity finance. Corporate debt has risen much more dramatically than in America, from 60% of GDP in 1997 to 76% in 2002. This legacy of over-borrowing and over-investment is currently holding back growth in the euro zone.

Gwyn Hacche, an economist at HSBC, suggests that one reason why the bursting of the bubble has not caused a sharper downturn in America is that the investment boom was financed largely through equity and bond markets rather than through the banking system, resulting in a wider spreading of risk. Only 17% of firms' debt is from banks, compared with 89% in the euro zone. Better still, a sizeable chunk of America's investment boom was financed by European investors who then bore the losses.

Not only did European firms over-borrow to a greater degree than their American counterparts but, since the bubble burst, they have been slower than American firms to slim their borrowing needs by slashing investment and operating costs. This is where Europe's structural rigidities have played a part. America's productivity growth rose by an impressive 3.8% in the year to the second quarter, whereas that in the euro area slowed to less than 1%, making it harder for firms to lift profits and reduce debts.

A final important source of growth in America is its housing market and its system of mortgage finance. As mortgage rates fall and house prices rise, this encourages people to refinance their home loans at lower rates and to borrow more against the higher value of their home. Such “mortgage equity withdrawal” provides cash to spend on other things. In the euro area house prices have also risen briskly in many countries in recent years (with the exception of Germany), but it is costly to refinance mortgages. Unlike their American counterparts, euro-area borrowers would typically be charged a penalty of 2-3% to pay off their mortgage early. As a result, consumer spending has not been supplemented by mortgage equity withdrawal. But this fuel for America's economy is starting to run dry.

Mortgage rates have been pushed up by rising bond yields and by uncertainties at the giant mortgage agencies Fannie Mae and Freddie Mac, causing a sharp drop in mortgage refinancing. Once the stimulus from the latest tax cuts fades, the pace of American consumer spending could slow sharply.

Europe's corporate-sector imbalances may be more severe than America's, but its consumers' finances are in far better shape, with higher saving rates and lower debts. Given that consumer spending accounts for 70% of America's GDP, this suggests that over the medium term the euro area's economies will be better placed to expand than America's. And with recent promising signs of economic reform across Europe, the area's growth in GDP per head could yet outstrip America's.

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New York Stock Exchange

Plus ça change

Aug 14th 2003 | NEW YORK
From The Economist print edition

How long can the NYSE avoid fundamental reform?

WITH Sarbanes-Oxley as the new law of the land and the Wall Street settlement inked, a scandal-filled chapter in corporate America has drawn to a close. But for the New York Stock Exchange (NYSE), the headaches continue. Last week, the vice chairman of the NYSE's board of directors, Robert Murphy, abruptly resigned because of the exchange's investigation into alleged trading violations by his firm, LaBranche & Co, and four other so-called “specialists” that handle customer orders. Despite the threat of expulsion from the exchange, LaBranche has refused to turn over employees' personal e-mails, arguing that they are irrelevant to the investigation—and knowing that the NYSE has no power to subpoena documents.

LaBranche's intransigence means that the investigation, which cuts to the heart of how fair a deal investors get on the exchange, could drag on for months—not the best way to burnish the NYSE's reputation, which is already under attack.

AP

Too cosy, Mr Grasso

In July, the Council of Institutional Investors (CII), which represents 130 pension funds holding some $3 trillion in assets, issued a scathing report on the NYSE's corporate governance. The report notes that, whereas the exchange has three constituencies—members (intermediaries such as broker-dealers and specialists), listed companies and investors—only members can vote and choose board directors. And they provide the bulk of the exchange's operating expenses. “As long as broker-dealers elect the board and pay the bills, how can there *not* be big conflicts in self-regulation?” thunders Sarah Teslik, executive director of CII.

The NYSE's board comes in for harsh criticism. Almost half of the CII's report examines the careers and affiliations of the exchange's 27 board members (26 since Mr Murphy's resignation), looking for possible conflicts of interest. Such information is automatically required from firms listed on the exchange but, oddly, not from the NYSE itself. The exchange's supposedly “non-industry” directors include Bill Harrison, the chairman of J.P. Morgan Chase, a Wall Street bank, and executives of other companies listed on the NYSE—hardly outsiders. And New York University, which according to the CII received 16% of the disbursements from the NYSE's non-profit foundation in 2002, had three NYSE directors on its board of trustees, while its president sits on the exchange's compensation committee.

In fact the NYSE started cleaning up its act in the spring, under pressure from the Securities and Exchange Commission. In June, it implemented ten reforms including a ban on its employees sitting on the boards of other businesses, and the disclosure of executive compensation. More reforms are due in the autumn.

But these tweaks may not be enough. “Without looking at the ownership of the exchange, you can't address its conflicts systematically,” says Benn Steil at the Council on Foreign Relations in New York. A demutualised structure, like that of the main European stock exchanges, might better align the interests of investors and the exchange. But for-profit exchanges are criticised too for putting their own interests before those of users. Funnily enough, Dick Grasso, the NYSE's chairman, proposed demutualisation in 1999—only to be roundly voted down by specialist firms.

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Weather futures

A hedge against the heat

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From The Economist print edition

A survival mechanism for weather-sensitive businesses

WITH Europe sweltering this month, anyone selling ice cream or electric fans should be making money at a furious pace. But pity companies that make chocolates and sweaters? Not necessarily. More and more firms know that hedging can shield their businesses from the effects of extreme weather.

Heineken, Coca-Cola and Munich's Oktoberfest, for example, already hedge against unusual temperature swings. The Weather Risk Management Association, an international trade group, says that weather contracts last year paid out $4.2 billion, with more than three-quarters of that in America.

This week the Chicago Mercantile Exchange (CME), America's largest futures exchange, announced a joint venture with the Met Office, a British weather forecaster, to offer futures and options contracts on Europe's weather. If regulators approve, the Weather Xchange, as the venture is called, plans to launch contracts for six places later this year.

Enron pioneered weather derivatives in America in 1997. Now these derivatives are traded both over-the-counter (OTC) and on the CME, which has offered American weather contracts since 1999. Europe's (usually) more temperate climate and patchier statistics have held back any parallel development. Only a small amount of hedging is done, mostly with OTC contracts.

Weather contracts launched in November 2001 on Euronext.liffe, a London-based exchange, have aroused little interest. Yet the potential is theoretically wide: agriculture, tourism, carmakers and clothing businesses are among those whose revenues are hurt by unusual weather. The Met Office claims it has created an authoritative database for Weather Xchange that will help to lure more trading in Europe.

Given the trend, shareholders soon won't accept the excuse that company revenues are down because it was too damn hot.

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Economics focus

Lion cubs on a wire

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From The Economist print edition

Some African economies are soaring, but from fragile foundations

ECONOMIC growth in Africa was dismal last year. At 3.2%, down from 4.3% in 2001, it barely kept pace with a swelling population. The culprits, according to a new report* by the United Nations, were a weaker global economy, drought and AIDS in southern and eastern Africa, fresh armed conflicts in the Central African Republic, Côte d'Ivoire and Madagascar, and yet more madness in Zimbabwe.

There were beacons in the gloom, however. Leaving aside countries that received oil windfalls, the best performers were Mozambique, Rwanda and Uganda, whose economies grew by 12%, 9.9% and 6.2% respectively. This was no one-off. In the past decade, Mozambican incomes have nearly doubled, and 4m Ugandans (22% of the population) have been lifted out of poverty. The average Rwandan, meanwhile, is two-thirds richer than in 1994. These three lion cubs are often paraded as proof that, even in Africa, sound economic policies and better governance can lead to rapid growth.

All three governments have indeed done many things right. All three are broadly business-friendly, and all have tried to strengthen property rights and the rule of law—both rare in the world's poorest continent. All three have also pursued sensible fiscal and monetary policies, liberalised their economies to varying degrees and welcomed foreign direct investment (FDI). Mozambique managed to attract an impressive $518m in FDI in 2001, equivalent to a seventh of GDP.

Their success is precarious, however. For a start, they are all highly dependent on charity. Aid accounts for more than 50% of Uganda's national government budget, 60% of Rwanda's and 70% of Mozambique's. Economists differ as to whether aid tends to complement or to displace private investment, but one thing is certain: without donors' support, the cubs would stumble.

Ashes can be fertile

Another reason for caution is that the lion cubs' growth rates reflect recovery from wars. The Rwandan genocide of 1994 cut GDP in half. In the 1970s and 1980s, civil wars in Mozambique and Uganda were nearly as bloody and economically just as devastating. This makes them awkward models for the rest of Africa. One can hardly advocate burning a country to cinders in order to bring about a post-war construction boom, such as Rwanda's, accompanied by torrents of aid from foreigners moved by televised carnage. Despite a decade or more of peace, none of these countries has quite regained its pre-war level of prosperity.

A final worry—and it is a big one—is that in all three countries, high average growth rates disguise large pools of stagnation. In Uganda, growth has been concentrated in the cities and in the wet, fertile region around Lake Victoria, while the arid north of the country has struggled. Between 1992 and 2000, mean consumption per adult rose by an impressive 6.2% each year in Ugandan cities, but by a miserable 0.5% in northern rural areas. In Mozambique, the south (which includes the capital, Maputo) is far richer than the north. Maputo attracted 93% of the country's foreign direct investment in 2001; the most remote northern province, Niassa, attracted none at all. In Rwanda, the divide is ethnic. Some members of the Hutu tribe complain that the Tutsis, who dominate the government and the army, have grabbed too big a share of the fruits of peace. Lack of data makes this hard to confirm.

Regional disparities of wealth are common everywhere: contrast China's coastal cities with its hinterland, or New York with Mississippi. But such inequality may matter more in Africa than elsewhere, because the nations there are less stable. Many Africans feel more loyalty to their ethnic group than to the state.

“Having one region lag far behind”, says the UN of Uganda, “can engender bitterness and ultimately foster rebellion.”

This has already happened. In northern Uganda, a longstanding revolt by a vicious, loose-knit outfit called the Lord's Resistance Army has proven impossible to suppress. Some young northerners have taken to pillaging because they see few other ways of making money. Worsening insecurity scares away investors and keeps the region poor. Ultimately, it could hurt the whole of Uganda. It is, for example, one reason why the government last year made a sudden, and huge, unbudgeted increase in military spending. This irks donors and may aggravate the country's debt problems.

Rwanda and Mozambique are more tranquil but cannot afford to be complacent. One survivor of Rwanda's genocide told Gérard Prunier, a historian, that “the people whose children had to walk barefoot to school killed the people who could buy shoes for theirs.” Many in Mozambique's poor north support Renamo, a formerly atrocity-prone rebel group which has now turned into a peaceful opposition party.

Countries that have suffered one civil war are disproportionately likely to suffer another. To their credit, all three governments are aware of the risk, and are trying to do something about it. Mozambique has introduced tax breaks for those who invest in marginalised areas; Uganda is considering transferring more public money to poor regions; and Rwanda has introduced checks to ensure that most of the money allocated to rural schools and clinics actually gets there. Such measures will doubtless help, but it will be hard to make up for the lack of rain and abundance of guns in northern Uganda, or for the fact that the few roads connecting northern Mozambique with the booming south are regularly blasted away by floods. Rwanda's ills will not heal fast, either.

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* “Economic Report on Africa 2003”, UN Economic Commission for Africa, July 2003

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Tsunamis

The next big wave

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From The Economist print edition

NOAA

New ways of tracking these killer waves may help save lives

FOR many inhabitants of the Pacific coast, powerful waves caused by earthquakes or underwater landslides—generally known by their Japanese name, tsunamis—are an ominous threat. When a wave 15 metres (50 feet) high pounded the northern shores of Papua New Guinea in July 1998, the inhabitants were taken by surprise. This tsunami killed more than 2,200 villagers, making it one of the most destructive in recent years. But it was just one of a string of killer waves that have struck the western Pacific over the past few years. Since 1990, ten big tsunamis have claimed more than 4,000 lives. So it would be nice to be able to detect such tsunamis far enough in advance for people to be evacuated. But that is not easy.

Seismometers and coastal tidal gauges—instruments already deployed for other purposes—can provide some warning. Seismometers measure earthquakes that might cause tsunamis, but they cannot detect the waves themselves. Nor can they normally detect landslides triggered by earthquakes, since the energy released in a landslide is small compared with that released by an earthquake. Yet landslides are often the cause of the most destructive tsunamis. (The New Guinea tsunami mentioned above is believed to have been amplified in this way.) The result is error on the side of caution: since the 1950s, 75% of tsunami warnings that led to evacuations have turned out to be false alarms. Such evacuations are not cost-free. A false alarm that triggered the evacuation of Honolulu, in May 1986, resulted in losses of more than $30m.

Tidal gauges, by contrast, can spot tsunamis reliably from their effect on the sea level, at least when they are close to shore. But since a tsunami may travel at more than 700kph (450mph), that does not give much warning. Tidal gauges cannot measure tsunamis in the deep ocean.

Waving, not drowning

What is needed are specific detectors that take advantage of the fact that tsunamis are felt throughout the ocean's depths, unlike wind-generated waves, which affect only its surface. One approach is to put pressure detectors on the seabed. When a tsunami passes by, the detector records the increased pressure caused by its passage.

Japan was the first country to deploy such detectors. It now has 14 of them. But they are connected to the mainland by submarine cables. That means, in practice, that they can be deployed only some 50km from land, which is better than tidal gauges, but not ideal. The network can give local warnings. But the

only way to be sure whether a dangerous wave is headed towards a distant coastline is to track it across the open ocean.

America's National Oceanic and Atmospheric Administration (NOAA) hopes to do just that. Its “tsunameters”, as they are dubbed by Eddie Bernard, the director of the agency's Pacific Marine Environmental Laboratory, have cut the umbilical cord with the land. Instead, they transmit warnings to buoys on the surface, and these, in turn, relay the information to NOAA via satellite. Besides allowing the detectors to be deployed almost anywhere, this system is cheaper than using cables. Each detector costs about $200,000 to set up. The Japanese versions cost more than $5m each.

According to Frank Gonzalez, who heads NOAA's tsunami research programme, five tsunameters have been deployed in the North Pacific and one in the South Pacific, with the actual detectors located at depths of up to 4km. A seventh will be set up near Chile in November this year, to intercept tsunamis generated off South America. Although the system has yet to detect a big tsunami (none has occurred since it began operations), it has successfully identified small ones.

The Japanese, meanwhile, are trying an alternative approach to the job of cutting the cable. A group of researchers at Tokyo University's Earthquake Research Institute are developing a warning system that relies on global positioning system (GPS) navigation satellites to monitor the motion of buoys moored in the open ocean. By placing GPS antennae on shore and on the buoys, the researchers are able to compare a buoy's “altitude” with that of a stable location on land. According to Teruyuki Kato, the project's leader, this arrangement can measure a buoy's vertical motion with an accuracy of a few centimetres, which will pick up dangerous tsunamis in the open ocean where they are mere ripples on the surface (they rear up into killer waves only when they reach the shallows). Dr Kato's team has already tested the system successfully in the sea off Ofunato, in the east of the country, and a new system will be placed off Muroto promontory, in the west, early next year.

Another line of research that holds promise is the analysis of a type of sound wave known as a T-phase wave. Rocks rumbling downhill produce T-phase waves that are carried by the ocean to both nearby and distant coastlines. Emile Okal of Northwestern University in Evanston, Illinois has observed that T-phase waves produced by landslides can be heard by hydrophones (underwater microphones) of the sort used to detect submarines. Dr Okal has used this technology to identify tsunamis caused by landslides (ie, the sort most likely to be dangerous, and thus require evacuations to be organised). He has also been able to process seismograms and identify differences between the seismic signals from earthquakes that produce tsunamis directly and those that trigger tsunami-producing landslides.

Merely detecting tsunamis, though, is not enough. Tsunamis must be classified to predict the level of danger. One way of doing that is by computer modelling. Models developed by Vasily Titov, at NOAA, and Costas Synolakis, at the University of Southern California, can predict the size and shape of the waves that will be generated by a particular tsunami, as well as the resulting coastal inundation. Knowing how far inland a tsunami will penetrate should help the authorities to evacuate the right areas.

Technology, though, can do only so much. The best protection, according to Dr Synolakis, is common sense. Coastal dwellers must be able to recognise the signs of a possible tsunami—such as strong, prolonged ground shaking—and seek higher ground at once. As with any hazard, the more informed the public are, the better their chances of survival. For instance, after the Papua New Guinea tsunami, an international team was dispatched to Vanuatu, a group of islands in the Pacific, where they showed videos of tsunamis to the villagers. When a tsunami struck Vanuatu in 1999, only five people died in it. The message is clear enough. There is no way to stop a tsunami once set in motion, but there is certainly a way to avoid getting killed by one. Run like hell.

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Volcanoes

Plumbing the depths

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From The Economist print edition

A new understanding of what goes on under volcanoes

HOW is a volcano “plumbed in” to the Earth? Does Mount Pinatubo have any U-bends in its pipe-work and how many twists and turns are there in the conduits underlying Mount Etna's fireworks? The answer is fundamental to understanding how volcanoes work, and could be crucial to predicting when a particular volcano is next going to blow.

The traditional view is of a volcano being fed by a magma chamber that lies at the base of the Earth's crust. A few pipes lead up to the surface, each ending in a volcanic vent. Magma (as liquid rock is known before it erupts) periodically spurts out of these pipes. But that idea is being challenged by a group of geologists who argue for a more complex plumbing system of “magma-mush” columns—a network of magma-filled cracks that finger their way up through the crust. Among these geologists are Keith Putirka, of California State University, and Christopher Condit, of the University of Massachusetts, Amherst. And they think they have some evidence to back the idea up.

AFP

From the depths to the heights

The answer lies in the magma itself. Dr Putirka and Dr Condit reckon that lava (as magma is called once it has erupted on to the surface) from a particular volcano will have been altered chemically by its journey through the crust in ways that betray the details of that journey. In a paper in this month's *Geology*, they apply their method to lava from the Springerville volcanic field in Arizona.

Dr Putirka and Dr Condit are especially interested in the composition of a mineral called clinopyroxene. When magma pauses on its journey through the crust, it begins to cool. Crystals, including crystals of clinopyroxene, then start to form in it. The exact composition of the clinopyroxene, though, depends on the pressure under which it is forming. And that, in turn, depends on the depth. In particular, more pressure causes the mineral to be richer in sodium. So the sodium in clinopyroxene acts as a barometer that tells you at what pressure (and hence depth) the magma paused on its way to the surface.

At Springerville, Dr Putirka and Dr Condit discovered two levels in the crust where magma had paused and pooled before bursting through to the surface. The first was in the middle of the crust, at a depth of around 26km (16 miles), while the second was much nearer the surface—12km down. Crucially, they found no evidence for magma pooling at the base of the crust (a depth of around 40km at Springerville), suggesting the traditional model is plain wrong. And further support for the magma-mush-column idea has come from Bruce Marsh, of Johns Hopkins University in Baltimore, who has been studying an exposed section of Antarctic crust that reveals a cross section of pipes and pools within an ancient volcano.

Since the depths at which magma forms pools under a volcano are likely to influence the type of volcanic eruption at the surface, this information could help to predict a volcano's behaviour. Though little is known for sure, this being such a recent discovery, it seems likely that some plumbing structures will prove prone to producing infrequent, explosive eruptions, while others yield a steady trickle of lava at the surface.

That, of course, needs investigation. And Dr Putirka and Dr Condit are now doing so by studying other volcanically active areas. If they do uncover a relationship between a volcano's plumbing system and the

size and timing of its eruption, it could lead to more accurate long-range forecasts for volcanoes.

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Controlling menstruation

Period piece

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From The Economist print edition

"When do hockey players have sex with their wives?" "Between periods."

Get article background

AH! THE joys of menstruation: mess, discomfort and a steady stream of offensive jokes. Humans are among the few species whose females regularly shed the linings of their wombs. Apart from signalling the absence of pregnancy, the purpose of menstruation is still a mystery to evolutionary biologists. And, whereas menstruation is extolled in some cultures as a hallmark of femininity and a crucial right of passage, many women would be happy for a break from the monthly curse. A recent study of 1,000 women conducted by Anna Glasier, of the University of Edinburgh, and her colleagues, showed that more than half of those surveyed in Scotland and China disliked having periods (though most Nigerians and South Africans polled did not mind). In Edinburgh, at least, a third would prefer to do away with them altogether.

Soon, if America's Food and Drug Administration gives its blessing, such women will be closer to having their wishes fulfilled. Seasonale, a new product from Barr Laboratories, an American drugmaker, is designed to reduce the number of menstrual cycles a woman undergoes from 13 a year to four. Though Seasonale is intended for use as a contraceptive, there is a lot of interest in it from women who simply want better control of their cycles.

Like other versions of the Pill, Seasonale contains synthetic varieties of oestrogen and progesterone, the hormones that regulate the female reproductive cycle. But unlike conventional oral contraceptive pills, which are taken for 21 days at a time with a seven-day break to allow for bleeding, Seasonale is designed, packaged and tested to be taken for 84 days in a row, followed by a week-long hiatus.

As many reproductive biologists point out, there is nothing normal about a woman bleeding every single month. For much of human history, a woman's reproductive life was dominated by pregnancy and breast-feeding, both of which block menstruation. Though a woman in the rich world today can expect to have 450 periods in her lifetime, her ancestors would have averaged about 160. Indeed, some experts argue that regular bleeding is a medical risk, leaving a woman open to such complications as endometriosis (abnormal growth of the uterine lining) and anaemia. Certainly some women suffer more than others, debilitated by heavy bleeding, painful cramps and migraines. Besides such physical inconveniences, some studies suggest that menstrual disorders significantly affect women's productivity at work, and so the economy as a whole. For all these reasons, some women already try to achieve the same effect as Seasonale by taking one pack of regular oral contraceptives straight after another.

But other researchers remain unconvinced. Christine Hitchcock, who works at the Centre for Menstrual Cycle and Ovulatory Research at the University of British Columbia, in Vancouver, worries that there is not enough research to show the long-term effects of the extended use of oral contraceptives on the breast. She is alarmed that some people talk about Seasonale in the same way they might talk about taking a daily vitamin pill. Certainly, sex hormones are powerful stuff. Only a week ago, studies published in the *New England Journal of Medicine* and the *Lancet* pointed to an increased risk of breast cancer and heart disease associated with the oestrogen and progesterone used in hormone replacement therapy (HRT) for post-menopausal women. While oral contraceptives have a good safety record (and Barr Laboratories' trial of 1,400 women showed no evidence that Seasonale is riskier than conventional contraceptive pills, except for a higher incidence of irregular bleeding in the first few months of use), Dr Hitchcock is keen to see women exercise caution when it comes to prolonged use of anything containing sex hormones.

As Arthur Caplan, a bioethicist at the University of Pennsylvania, notes, the broader question raised by

Seasonale is whether suppressing menstruation is merely a lifestyle choice or, rather, whether it is more like turning a normal bodily function into a medical complaint. Like Prozac before it, Seasonale looks likely to fuel the debate on just how far science should interfere with Mother Nature.

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Planetary formation

A nod and a wink

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Long-term record-keeping has caught a solar system in the process of forming

NEVER throw anything away. That is the lesson of a piece of research about to be published in *Astrophysical Journal Letters*. Joshua Winn, of the Harvard-Smithsonian Centre for Astrophysics, in Cambridge, Massachusetts, and his colleagues, have found something that may illuminate the way planets form. And they have done it not by looking through telescopes, but rather by looking through the archives.

Dr Winn, a former Richard Casement intern on this newspaper, became interested in the discovery last year of a star that winks. Such eclipsing binaries, in which a dim companion blots out part of the light from a bright star when the one passes in front of the other, are common objects. What is unusual about KH 15D is not that it winks, but rather that the best explanation for the pattern of its winking is that the dim companion is not a small star, nor even a large planet, but a ripple in a dust cloud surrounding the bright star. Such clouds are thought to be the precursors of solar systems, so any information that can be gathered about them is crucial to understanding how planets form. Dr Winn's hope was that, by looking at KH 15D's recent history, he might find clues as to how the dust cloud was evolving.

Harvard's archive of astronomical photographs is the world's largest, and the researchers managed to find 40 plates from the early decades of the 20th century in which KH 15D featured clearly enough for its brightness to be measured. In none of these was an eclipse detected. Since the current pattern of eclipses implies that 40% of the photographs (ie, 16 of them) should have shown the star in eclipse, that suggests things have changed significantly in a few decades.

Exactly what has changed is not clear, at least at the moment. One explanation is that the ripple has been caused by the gravity of a Jupiter-sized “protoplanet”. If that is correct, careful observation of the ripple might reveal more about this object, such as how rapidly, if at all, it is growing. Further study of the archive, to try to find when the eclipses began, is now planned. A moral victory for hoarders everywhere.

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Food scares

Danger at the manger

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From The Economist print edition

A great deal of nonsense is written about food safety. We choose the best new books on the subject and—more important—tell you which ones to avoid

Get article background

TO A child, mother's little maxim, “you are what you eat”, is merely irritating; grow up, however, and it can become quite unsettling. The last decade has seen a spate of food- and farm-related scares, which have undermined confidence in modern agriculture and, in Europe especially, have shaken consumers' faith in the ability of governments to safeguard the food supply and the environment from the depredations of big, bad agribusiness.

A case-in-point is the mysterious mess of mad-cow disease. Britain has seen 180,000 cases of Bovine Spongiform Encephalopathy (BSE) since 1984, but experts reckon that perhaps as many as 1.9m cows were affected between the early 1980s and mid-1990s when the British government finally introduced a full suite of protective measures. The disease has also spread to 22 other countries, with the latest outbreak in Canada earlier this year. The human face of BSE—a terrible neurodegenerative condition called variant Creutzfeldt-Jakob Disease (vCJD)—has already claimed 133 victims in Britain and a handful of others abroad, including the first suspected case in New Zealand earlier this month. Most of the dead are young, but their brains become pocked with holes and scarred by lumps of protein.

Scientists still have more questions than answers about BSE, vCJD and the related scourges which make up the transmissible spongiform encephalopathies (TSEs). Philip Yam's book, “The Pathological Protein”, does an admirable job of exploring them. It is generally accepted that BSE arose from trying to boost milk production by feeding cattle the remains of other animals, or meat-and-bone meal as it is more delicately known. But why, when this was a long-standing practice in other countries too, did it appear in Britain first in the 1980s?

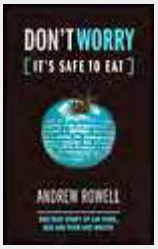
One interesting theory, discussed in Mr Yam's book, is that OPEC is indirectly to blame: during the first oil crisis, British renderers started taking short-cuts in preparing meat-and-bone meal in order to cut down on fuel costs; alas, these lost steps may have been critical to deactivating the curious protein particles, or

The Pathological Protein: Mad Cow, Chronic Wasting, and Other Deadly Prion Diseases
By Philip Yam

Copernicus; 304 pages; $27.50

Buy it at Amazon.com

Don't Worry (It's Safe to Eat): The True Story of GM Food, BSE and Foot and Mouth
By Andrew Rowell



prions, which are thought to be responsible for TSEs.

Nor is there complete agreement on how the victims of vCJD came to contract the disease. Is it through eating contaminated beef, with prions passing through the gut? Or some other route of entry? What is the infectious dose? Why have some people contracted the disease, while others, with much the same diet, remained immune? Or will those who now appear resistant simply take longer to develop the disease? Answers to these questions are critical to gauging how far, and for how long, vCJD will spread. One early prediction estimated that 136,000 people would develop the disease in Britain alone; more recent estimates reckon there may be as few as ten deaths in the coming years. As Mr Yam wryly remarks, “Not all the English have gone mad and died, meaning that several other factors must be at play in determining who succumbs to vCJD.”

“The Pathological Protein” is full of such sensible observations, a welcome novelty in discussions on this fraught topic. The author is particularly good at explaining the complex and controversial science behind TSEs, as well as the prospects for better diagnosis and treatment—no surprise given his long experience as a writer and editor for *Scientific American*. But his descriptions of the weird world of prion diseases—whether it is in the Italian family cursed with deadly insomnia or the cooking practices of New Guinean cannibals laid low by kuru, another TSE—are equally graphic.

At the end of the day, no country can consider itself immune to mad-cow disease, and the book has a few suggestions of tougher controls for American regulators to consider. Prion diseases are not just bad luck, concludes Mr Yam, but a warning that “something is out of balance, that the excessive unnaturalness we force on livestock could be catching up with us.”

Earthscan; 268 pages; $29.95 and £16.99

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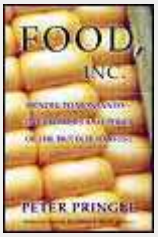
Food, Inc: Mendel to Monsanto—The Promises and Perils of the Biotech Harvest
By Peter Pringle



Simon & Schuster; 256 pages; $24

Buy it at
Amazon.com

This too is the basic message put forward by Andrew Rowell. However, whenever anyone promises to tell you the truth, the whole truth, you should brace yourself for bad news: for all the comfort of its title, “Don't Worry (It's Safe to Eat)” is no exception. Mr Rowell declares himself to be worried about the cabal of eminent scientists who he says run Britain's Royal Society and conspire against their dissident peers, distressed at the British government's handling of the BSE crisis, upset by its incompetence in dealing with the 2001 foot-and- mouth outbreak and unnerved by the energy with which genetically modified (GM) foods are being foisted on British eaters by an unholy alliance of the government and the agricultural biotechnology industry.

For all its high anxiety, this book manages to be both alarmist and boring at the same time. More's the pity, since Mr Rowell makes some interesting observations about the state of modern farming and food regulation. But these are lost in the general bias as he lambasts corporate agriculture without scrutinising the motives of both the organic farm movement and green groups that oppose it.

Far more informative, and better-written, is Peter Pringle's new book on GM crops. “Food, Inc” charts the development of GM food, from the Green Revolution to the current crop of high-tech soyabeans, maize, cotton and oilseed rape, which now covers almost 60m hectares in 16 countries. Mr Pringle carefully dissects the anatomy of resistance to GM food in Britain, as well as recent scares in America over contaminated taco shells and disabled butterflies. His book also clearly lays out the environmental and economic uncertainties associated with GM crops, and the risks of allowing GM technology to propagate the “plague of sameness” which has come to characterise modern, industrialised agriculture.

The book offers an interesting view of the origins and current deficiencies in America's laisser-faire approach to regulation. Nor is Mr Pringle particularly pleased with corporate control over GM research and one of its key tools—gene patenting. He highlights the fate of several scientists who cast doubt on GM crops only to find themselves under attack.

Despite his tough stance, Mr Pringle takes a realistic view of what GM technology can do, particularly in addressing the agricultural challenges of the developing world. Many of the problems posed by GM crops are no different from those presented by conventional agriculture; if they live up to their promise, however, GM crops could solve many more.

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The bridal industry

Lavish lawful wedded luxury

Aug 14th 2003
From The Economist print edition

WORKING late one night in 1947, Frances Gerety, a maiden New York copywriter, coined the slogan “A diamond is forever”. The phrase transformed the business of marriage proposals. For millions of wooing couples, the De Beers diamond ring came to symbolise eternal romantic love. Within three years, diamond engagement bands would adorn the hands of eight out of ten American brides.

Today, the stone must be at least one carat and set in platinum. Yet the mass pursuit of the luxury wedding, according to Cele Otnes and Elizabeth Pleck, has never properly been examined by scholars. Neither its role in bolstering the institution of marriage nor its implicit insurance against divorce can be reason enough for so many hopefuls to overheat their own (and their parents') credit cards. The deluxe wedding's appeal lies in its ability to marry consumer culture and romantic love. Through a combination of artefact, ritual and religious symbolism, bride and groom are magically transformed by their nuptials and made legitimate by an ethic of perfection. In other words, even the most garish of weddings is worth the expense.

Ms Otnes and Ms Pleck approach their subject like two eager aunts armed with an anthropologist's vocabulary and a brand manager's marketing zeal. While the authors claim no position on the wedding industry, they dismiss critics—be they anti-consumerists, feminist malcontents, social scolds—like uninvited guests. Given a subject matter that begs for irony, they betray nary a giggle or gag reflex even while describing the Las Vegas wedding-chapel business.

Most of the book is devoted to a cataloguing of bridal accoutrements: the dress, the garter, the groom. A chapter on globalisation offers a seemingly random look at weddings in India, South Korea and Ethiopia; another deconstructs plotlines of wedding-themed films. Despite occasionally shoddy research, the book is best read for its assemblage of wedding facts; quaint arcana is equally matched by contemporary hoopla. Whether extravagant weddings really do buy bliss remains unproven. As for Frances Gerety, she never married.

Cinderella Dreams: The Allure of the Lavish Wedding.
By Cele C. Otnes and Elizabeth H. Pleck.
University of California Press; 399 pages; $50 and £32.95 (hardback); and $19.95 and £12.95 (paperback)

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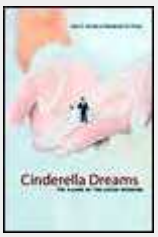

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Xinjiang, China

Determined but doomed

Aug 14th 2003
From The Economist print edition

HOLLYWOOD'S glitziest are unlikely to be lining up in support of the people of Xinjiang. The Uighurs are everything Tibet and the Tibetans are not: obscure, tricky to pronounce, lacking in a charismatic leader and the practitioners of a religion that is rather out of favour in America these days. The Dalai Lama need have no worries.

This, though, is deeply unfair. Xinjiang is China's other vast subject province, home to a gulag of 250,000 and in danger of having its culture wholly eliminated by Chinese migrants. The Uighurs, Turkic-speaking Muslims who, like the Tibetans, have spent the last two millennia struggling against the Han Chinese, are already a minority in their own land.

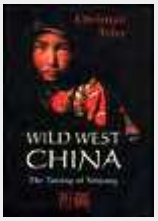
Unlike the Tibetans, the Uighurs are in a state of insurrection, though their uprising is almost certainly doomed. Riots, bombings and protests, rumoured rather than known of for sure, have stalked China's wildest western province for the last 15 years. Even its name—which means “New Territory” in Chinese—is a sign of imperium. Its inhabitants prefer to call their land East Turkestan, stressing the fact that they look westwards to Central Asia, not east to Beijing. The Chinese have controlled the area for only about 500 of the last 2,000 years, and even in the 20th century there were two short-lived East Turkestan republics. But since the communists triumphed in 1949, the grip of the Han Chinese has tightened ever further.

Christian Tyler, a former journalist, performs a valuable service in bringing to a wider audience the story of a neglected area three times the size of France. Sadly, this is a thrilling tale somewhat boringly told, too academic and dry in execution really to grip the ordinary reader. But it is worth persevering. Although there is too much geology and ancient history at the start of the book, the tale picks up markedly as modern times are reached.

There is not much that poor Mr Tyler could have done about the book's main weakness, a near-total absence of reportage: travel in Xinjiang is difficult, and the Uighurs, like most repressed peoples, are wary of speaking to foreigners. Even so, nothing in his researches leads Mr Tyler to sound very optimistic about the Uighurs' future. Many of the brightest have been co-opted into the Chinese administration or local, Chinese-dominated, industry. Others have fled abroad. A few foolishly involved themselves with Osama bin Laden. This has led America to turn its back on the (little-known) East Turkestan Independence Movement. By association, the whole Uighur cause has been abandoned in the larger interests of geopolitics. While this makes sense for the Americans, it is desperately sad for the Uighurs.

Wild West China: The Taming of Xinjiang.
By Christian Tyler.
John Murray; 314 pages; £20

Wild West China: The Taming of Xinjiang
By Christian Tyler



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Iran

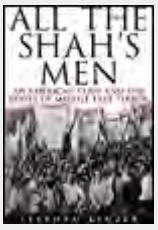
How to change a regime in 30 days

Aug 14th 2003
From The Economist print edition

THE overthrow of Saddam Hussein may seem to herald a new era of intervention, but America and Britain have been partners in pre-emptive regime change before. Fifty years ago this week, the CIA and the Secret Intelligence Service toppled the democratically elected Iranian prime minister, Mohammad Mossadegh. His government had nationalised the Anglo-Iranian Oil Company (the forerunner of BP) in protest against working conditions and British unwillingness to share profits evenly.

The British government convinced President Eisenhower that Mossadegh was leading Iran towards communism. It won American backing to restore the shah to power and put Iranian oil under an international consortium. But that short-term success came at a painful long-term cost. The shah's brutality after his return inspired the anti-American Islamic fundamentalists who burst forth in 1979 and have flourished ever since.

All the Shah's Men: An American Coup and the Roots of Middle East Terror
By Stephen Kinzer



John Wiley; 272 pages; $24.95 and £17.50

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Indeed, Iranians stormed the American embassy in part because the shah's return had been plotted there before and they did not want to see history repeated. This point was lost on Americans at the time, but research by Mark Gasiorowski and others has brought the CIA's role to light. In March 2000, the secretary of state, Madeleine Albright, publicly acknowledged America's involvement in the coup for the first time. For those who like their spy data raw, the CIA's secret history is now freely available, thanks to a leak, on the National Security Archive website.

Stephen Kinzer, a veteran correspondent with the *New York Times*, has seized the moment to tell a thrilling tale that pits two characters worthy of a movie against each other. On one side is the frail but brilliant Mossadegh, pleading his case with skill and erudition before the UN, and beating Eisenhower and Churchill to become *Time* magazine's "Man of the Year". On the other is the dashing Kermit Roosevelt, grandson of a president, Harvard graduate, historian, tennis player and star CIA operative in Iran. In Mr Kinzer's hands, their story becomes a passionate and persuasive warning about the unintended consequences of regime change.

In his zeal to defend the underdog—Mr Kinzer dedicates the book to the people of Iran—the author dashes past some relevant history. He suggests, for example, that Britain and America exaggerated the communist threat, since Stalin died in March 1953 and no orders came from Moscow that summer to take advantage of the chaos in Iran. As Soviet tanks had brutally crushed East German protests just weeks before in June, western policymakers could be forgiven for thinking that it was still business-as-usual after Stalin's death.

Nor are the comparisons with today straightforward. In Iran, America overthrew a democratic leader and replaced him with a dictator; in Iraq, the hope is that the opposite will occur. Nevertheless, Mr Kinzer's tale is salutary because of one striking similarity: the ease with which Britain and America succeeded.

In Iraq, it took coalition forces only a month to oust Saddam Hussein, despite being outnumbered almost two to one on difficult enemy terrain. In Iran, the same period elapsed between presidential approval and the coup. Admittedly MI6 had already laid the groundwork by establishing a network of operatives. But it is still astonishing how readily Roosevelt and his Iranian agents found mobs-for-hire, happy to riot for pay with no questions asked. Mix mobs with a sustained press campaign and corrupt military officers, and *voilà*: regime change. The really cautionary tale of Mr Kinzer's book is how easy it would be for any democracy erected by America and Britain in the Middle East to fall again.

All the Shah's Men: An American Coup and the Roots of Middle East Terror.
By Stephen Kinzer.
John Wiley; 272 pages; $24.95 and £17.50

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New British fiction

Busy time out

Aug 14th 2003
From The Economist print edition

CONSIDERING what a secular country Britain now is, religion has become strangely fashionable in British fiction. Salley Vickers, a psychologist and academic, has become a word-of-mouth publishing success by bravely tackling religious conundrums. With understated humour and intelligence, her first two novels, “Miss Garnet's Angel” and “Instances of Number Three”, both gently explored those tantalisingly soft areas in which psychologists and novelists alike love to prod—human relationships and religion.

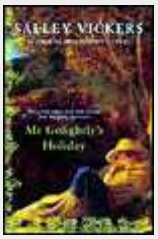
In her third novel, “Mr Golightly's Holiday”, the pace moves up a gear. Set in a beautiful remote English village, the plot bounces confidently between local villagers and a newly arrived author, Mr Golightly, who is taking time out to revamp his flagging bestseller as a television soap opera for a modern audience. As in the best of soaps, the unprepossessing little town turns out to seethe with colourful characters, vigorous grudges and long-nourished passions.

A tattooed barmaid with a strong sense of social justice, an Elvis-loving school truant, a deliciously unpleasant prison warden and other townsfolk of varying degrees of self-importance all make the retiring author's vacation more eventful. Ms Vickers still practises as a psychologist when not writing, and the novel reflects her curiosity about the human mind by considering the mental states of even the most ridiculous figures. Delicate matters of the heart are satisfyingly democratic: grand amour succumbs to illiterate handyman with a penchant for badger-baiting, rather than to the anguished local poet.

Interestingly, Ms Vickers treats casual psychoanalysis with extreme wariness. After eagerly offering counselling to a fibbing teenager who claims to have been molested, the village's *über*-liberal vicar finds herself falsely accused of the same offence. Having considered the options, the novel suggests instead that happiness is easiest achieved by friendship, and not taking oneself too seriously. It is this comic approach that gives the author the verve to pull off the final dare-devil twist at the end. Salley Vickers' novels display a growing confidence, and this latest is very much the best of them.

Mr Golightly's Holiday.
By Salley Vickers.
Fourth Estate; 356 pages; £16.99. To be published in America by Farrar, Straus and Giroux in January 2004

Mr Golightly's Holiday
By Salley Vickers



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About sponsorship

Photography

Picture postcards

Aug 14th 2003 | BRIGHTON
From The Economist print edition

This show is a gem

Get in the picture

SOMETIMES photography is most thrilling when it is just true to itself. “A Seaside Album”, an exhibition of images of Brighton and Hove taken over the last 160 years or so, is one example. The show's fascination lies not only in its neatly focused history of British photography, but also in its ability to capture the peculiar essence of an English seaside town complete with fish and chip shops and crowded piers. This is as true of 20th-century stars like Walker Evans, Elliott Erwitt or Bill Brandt as it is of the early snappers, such as William Constable, who set up the first photographic studio in Brighton in 1841.

A pet project of Philippe Garner, a photography specialist and writer who catalogued Sotheby's first sale of photographs in 1971, the exhibition—consisting of about 150 images—is the culmination of a passionate interest in the subject that began when he flicked through magazines as a teenager growing up in Brighton. His presence at the centre of the start of the photography auction market inspired Mr Garner to start collecting. He decided to trace the development of photography in Brighton—a theme that would also illustrate its shifting topography and social history.

Mr Garner's home town is uniquely suited to his topic. Transformed in the early 1800s by the Prince Regent (later King George IV) from a south-coast fishing village into a fashionable spa, Brighton boasted a railway connection with London as early as 1841—a couple of years after Louis Daguerre and William Henry Fox Talbot published their historical findings on how to fix images made by the effects of light. Indeed, it was Fox Talbot himself who made the first recorded images of Brighton in the winter of 1846 when he pointed his lens at the exotic domes and minarets of the Brighton Pavilion.

Photographers have visited or worked in the town ever since, drawn by its grand vistas, its historic buildings and the quality of its light as well as its hordes of holiday-makers, thus enabling Mr Garner, with an unerring eye, to offer a complete narrative. W. Wright's melancholy “Storm at Brighton”, taken in the autumn of 1891, contrasts with Bill Brandt's “Brighton Belle”, a 1930s image of a young girl on the crowded beach, a Union Jack stuck in her cap, fluttering in the breeze. Henri Cartier-Bresson hints at the post-war tawdriness of the place with his 1953 portrait of a woman in a coquettish pose, leaning against a pinball machine. Most immediate of all is a picture by an unknown photographer in the 1890s of a group of paddlers at low tide, the girls in dresses and ribboned straw hats playing in the water with buckets and spades. Complex, yet perfectly composed, it gives the viewer a feeling of being able to walk straight into the photograph.

“A Seaside Album: Photograph and Memory” is at the Brighton Museum & Art Gallery until October 8th

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About sponsorship

Opera houses

Board queens

Aug 14th 2003
From The Economist print edition

TO HEAR Maria Callas sing at La Scala in the 1950s, to witness the emerging Joan Sutherland at Covent Garden or Robert Merrill at the Metropolitan Opera House in New York, you really had to be there. The star singers were members of an opera company first, celebrities in their own right second.

A Tale of Four Houses: Opera at Covent Garden, La Scala, Vienna and the Met since 1945
By Susie Gilbert and Jay Shir

HarperCollins; 985 pages; £35

Buy it at Amazon.co.uk

One of the many changes that Susie Gilbert and Jay Shir chronicle in their exhaustively researched history of the four grand old opera houses since the second world war is the development of international opera, the same singers and conductors flitting backwards and forwards between continents.

What has not changed is the conservative nature of the audience, and its hostile reaction to innovative stagings. In 1949 there was an uproar in London over Peter Brook's production of Richard Strauss's “Salome”, designed by Salvador Dali. Today, this would be considered only mildly titillating. Instead, details are beginning to emerge of litigation against the Met by the trustees of the late Sybil Harrington, after whom the opera house's auditorium is named, in honour of the millions she donated.

The trustees say Harrington favoured only traditional productions and that the Met has broken faith by drawing upon it to put on an abstract “Tristan und Isolde”. In this book, Harrington is quoted as saying, “There is a limit to what you can do in Texas”, so she took her fortune to New York, and the Met became her family. Whether they will still be related in death remains to be seen.

Opera-lovers enjoy accounts of occasions they might have attended, of which there are many here. There is also plenty to amuse—and enrage them. As the authors put it, discussing Callas, the story juxtaposes epic, tragedy and farce.

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Roberto Marinho

Aug 14th 2003
From The Economist print edition

Roberto Marinho, a unifier of Brazil, died on August 6th, aged 98

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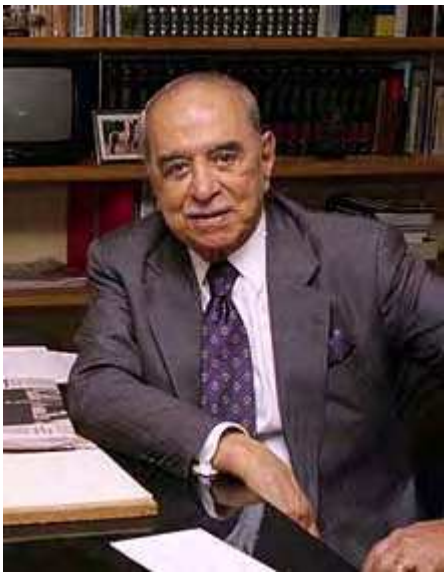

ONE of the songs that Caetano Veloso, a Brazilian musical star, has made a hit translates approximately, “For a long time slavery will remain the national characteristic of Brazil.” Of course, it sounds a lot better in Portuguese, and Mr Veloso, like Bob Dylan in America, has a huge and enraptured public that loves his protest music, in this case about Brazil's racial disparity. Those who do not care much for protesting are still pleased that his success internationally has benefited Brazil. He is right, they will say, half seriously, the Brazilians are slaves, enslaved to Globo.

Globo television reaches almost every home in Brazil through 113 stations and associates. It is powerful enough to decide when Brazil's football matches kick off. Globo was created by Roberto Marinho. Along with his newspapers and radio stations Globo gave him a rare degree of political and cultural power over his nation, a power once acknowledged by a Brazilian president who said he would fight with one of his ministers “but not with Roberto Marinho”.

No one sees much good in monopoly, but it has to be said that Mr Marinho helped to unify the country. He contested the belief that South America's biggest country was too big. At the end of a working day, Mr Marinho could reasonably claim that a substantial number of Brazil's 175m people would be drawn together watching a Globo programme: the tough northerners of Amazonia, the rich cattle barons of the southern plains, along with many millions of urbanites. The station's slogan, “You and TV Globo: a common view”, was constantly repeated during the commercial breaks. Togetherness was what mattered.

Romance and intrigue

Being a proud man, and only human, it is unlikely that Roberto Marinho acknowledged that his huge audiences were being fed on trash, and even less likely that his lieutenants used such a word in his presence. He could, though, have claimed that at least it was well-made trash. The television staples, known as *novelas*, were well-scripted stories with local settings, lots of romance and intrigue and some social commentary, and starring Brazil's top actors and actresses. Globo's evening news bulletin would be sandwiched between two *novelas*, so that Mr Marinho could point out that he was informing Brazilians, as well as entertaining them. Many of the *novelas* were in demand abroad. “The Slave Girl Isaura” was sold to 80 countries, including China.

Mr Marinho's personal tastes were far from trashy. His home, close to the feet of the Christ statue that overlooks Rio de Janeiro, contained works by Picasso and Mondrian and other costly painters now thought of as reliable traditionalists. He enjoyed his wealth. He kept fit and rode and went skin diving into old age. At 84 he was married for the third time, to a former Miss France.

Although Mr Marinho was in essence an extremely skilful businessman, he liked to call himself a journalist. His father started a newspaper called *O Globo* in Rio in 1926, when Roberto was 21, and died three weeks later. Newspapers were being founded and sinking all the time in Rio, then a small but expanding city. An earlier paper started by Roberto's father had folded and it was assumed that *O Globo* would fold too. But Roberto fancied being a journalist, appointed himself a trainee reporter on the newspaper his family had inherited, and worked himself up to become editor six years later. The newspaper did well, in part because it ran American newspaper comic strips translated into Portuguese.

He expanded into commercial radio in the 1940s. The market included Brazil's millions who did not buy newspapers (around 12% of the population is still illiterate). He moved into television in the 1960s, mortgaging his home to pay for the expansion. By the 1970s he was thought to be one of South America's richest men.

Mr Marinho divided his countrymen roughly into “patriots” and “bad Brazilians”. But he accepted that people could change categories. On one occasion he refused to hand over members of his staff to the ruling military who said they were communists. “I will take care of my own communists,” he said. None was fired; all were told to be more patriotic. He said he was a liberal, but “for patriotic reasons” he remained close to the generals during the period of military rule from 1964 to 1985. “National integration” was an aim the generals shared with Mr Marinho.

When democracy was restored, “Lula” (Luiz Inácio Lula da Silva) was preferred by many to lead the country. He was not Mr Marinho's preference and his newspapers and television stations were marshalled against Lula. He was duly defeated. Lula said that Mr Marinho did “nothing else but lie to the people”.

Last year, when Lula stood again for president, he felt he had strong enough support in the country to tell Mr Marinho and his three sons (who now ran the business) that he was going to win whatever Globo did. In the event, Globo reported the campaign fairly. Lula won by a landslide. With Mr Marinho's death, all old hostilities were put aside, all were patriots now and Lula declared three days of national mourning.

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Overview

Aug 14th 2003
From The Economist print edition

America's Federal Reserve left its interest rates unchanged at 1%. Still concerned about low inflation, it said that rates would remain low for a “considerable period”. Meanwhile, consumer spending remains robust: retail sales rose by 1.4% in July, thanks largely to increased car sales; total sales were 5.6% higher than a year earlier. However, mortgage refinancing, hit by rising mortgage rates, has slumped by 68% from its peak in May.

The latest economic figures from the euro area were dismal. **Germany's** GDP fell by an annualised rate of 0.2% in the second quarter, its third consecutive quarter of decline. German industrial production fell by 2.1% in the year to June. **Italy's** economy is also in recession: its GDP fell again in the second quarter, by 0.4% at an annual rate. Its industrial production was down by 1.7% in the year to June. **French** industrial production jumped by 1.2% in June, after a 1.3% drop in May as a result of strikes; output was still 0.9% lower than a year ago. Its 12-month rate of consumer-price inflation slowed slightly to 1.9% in July.

Japan's economy seems to be strengthening: its GDP grew by a stronger-than-expected 2.1% in the year to the second quarter. Consumer confidence has also improved: the Tokyo consumer-confidence index rose from 40.6 in June to 41.9 in July. Japan's current-account surplus rose to $112.6 billion in the year to June, up from $106.6 billion in the year to June 2002. Machinery orders jumped by 17.5% in June, a positive sign for capital investment.

Britain's 12-month rate of inflation rose to 3.1% in the year to July as the prices of summer footwear and clothes were discounted by less than usual, thanks to the hot weather. The RPIX, the underlying measure of inflation which excludes mortgage interest payments, rose to 2.9% over the same period. This was the ninth month that it has been above the Bank of England's target of 2.5%. Unemployment claimant counts fell by 8,800 between June and July. Analysts were expecting an increase. The rate of growth in earnings fell to 3.1% in the second quarter, compared with a year earlier.

Sweden's GDP growth slowed to 1.3% in the year to the second quarter.

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Output, demand and jobs

Aug 14th 2003
From The Economist print edition

% change on year ago

	GDP latest		GDP qtr*	The Economist poll GDP forecasts 2003	2004	Industrial production latest		Retail sales (volume) latest		Unemployment % rate latest		year ago
Australia	+ 2.9	Q1	+ 2.8	+ 2.8	+ 3.5	nil	Q1	+ 3.6	Q2	6.2	Jul	6.2
Austria	+ 1.0	Q1	+ 0.8	+ 0.5	+ 1.3	– 1.5	Dec	+ 7.4	Apr	4.4	Jul	4.3
Belgium	+ 1.4	Q1	+ 0.7	+ 0.7	+ 1.6	– 3.8	May	+ 1.7	May	13.0	Jul†	11.8
Britain	+ 1.8	Q2	+ 1.3	+ 1.8	+ 2.4	+ 2.2	Jun	+ 6.0	Jun	5.0	Jun††	5.1
Canada	+ 2.6	Q1	+ 2.4	+ 2.2	+ 2.9	– 0.5	May	+ 3.2	May	7.8	Jul	7.6
Denmark	+ 1.2	Q1	+ 1.4	+ 1.1	+ 2.1	– 0.5	Jun	+ 2.2	Jun	6.2	Jun	5.0
France	+ 1.1	Q1	+ 1.1	+ 0.8	+ 1.9	– 0.9	Jun	– 2.0	May	9.5	Jun	9.0
Germany	– 0.2	Q2	– 0.2	nil	+ 1.2	– 2.1	Jun	– 0.5	Jun	10.6	Jul§	9.8
Italy	+ 0.3	Q2	– 0.4	+ 0.5	+ 1.5	– 1.7	Jun	+ 1.2	May	8.7	Apr	9.0
Japan	+ 2.1	Q2	+ 2.3	+ 0.9	+ 0.9	+ 2.8	Jun	– 1.8	Jun	5.3	Jun	5.4
Netherlands	– 0.9	Q2	– 2.1	– 0.2	+ 1.2	– 3.2	Jun	– 1.1	Apr	5.5	Jun**	4.0
Spain	+ 2.1	Q1	+ 2.0	+ 1.9	+ 2.6	+ 4.5	Jun	+ 4.5	May	11.4	Jun	11.3
Sweden	+ 1.3	Q2	+ 1.2	+ 1.4	+ 2.2	– 1.1	May	+ 7.0	Jun	4.8	Jun†	4.0
Switzerland	nil	Q1	– 1.0	– 0.1	+ 1.3	+ 0.9	Q1	+ 1.1	May	3.6	Jul†	na
United States	+ 2.3	Q2	+ 2.4	+ 2.3	+ 3.4	– 1.0	Jun	+ 5.2	Jun	6.2	Jul	5.8
Euro area	+ 0.9	Q1	+ 0.4	+ 0.6	+ 1.7	– 1.3	May	+ 0.4	May	8.9	Jun	8.4
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Finland	+ 1.2	Q1	– 4.9	na	na	– 3.8	Jun	+ 2.3	Apr	9.6	Jun†	9.0
Greece	+ 4.4	Q2	na	na	na	+ 2.8	Jun	na		na		na
Iceland	+ 3.3	Q1	na	na	na	– 0.3	2002	na		3.2	Jun†	2.3
Ireland	+ 0.5	Q1	na	na	na	– 0.8	Jun	– 2.2	May	4.8	Jul	4.4
Luxembourg	+ 1.1	2002	na	na	na	– 0.8	May	– 1.6	Mar	3.5	Jun	2.6
New Zealand	+ 3.6	Q1	+ 3.3	na	na	+ 4.2	Q1	+ 5.1	Q2	4.7	Q2	5.2
Norway	+ 0.6	Q1	+ 1.3	na	na	– 6.4	Jun	+ 5.4	Jun	4.7	Q2	4.0
Portugal	– 1.2	Q1	+ 0.3	na	na	– 2.2	Jun	– 2.2	Jun	6.2	Q2†	4.5

*% change on previous quarter at an annual rate. †Not seasonally adjusted. ††Apr-Jun; claimant count rate 3.1% in July. §EU harmonised rate 9.4% in July. **Apr-Jun.

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Prices and wages

Aug 14th 2003
From The Economist print edition

% change on year ago

	Consumer prices			The Economist poll consumer prices forecast		Producer prices			Wages/earnings		
	latest		year ago	2003	2004	latest		year ago	latest		year ago
Australia	+ 2.7	Q2	+ 2.8	+ 2.7	+ 2.3	+ 0.2	Q2	– 1.1	+ 4.3	Q1	+ 4.1
Austria	+ 1.1	Jun	+ 1.7	+ 1.2	+ 1.1	+ 1.2	Jul	– 1.0	+ 2.1	Jun	+ 2.4
Belgium	+ 1.5	Jul	+ 1.3	+ 1.3	+ 1.1	– 0.9	Jun	+ 0.4	+ 1.7	Q2	+ 2.6
Britain	+ 3.1	Jul	+ 1.5	+ 2.7	+ 2.4	+ 1.4	Jul	+ 0.3	+ 3.1	Jun	+ 3.9
Canada	+ 2.6	Jun	+ 1.3	+ 2.8	+ 1.9	– 2.7	Jun	– 1.1	+ 3.5	May	+ 2.8
Denmark	+ 1.9	Jul	+ 2.2	+ 2.2	+ 1.8	– 0.2	Jun	– 1.2	+ 3.9	Q1	+ 4.0
France	+ 1.9	Jul	+ 1.6	+ 1.8	+ 1.3	+ 0.9	Jun	– 1.4	+ 2.9	Q1	+ 4.0
Germany	+ 0.9	Jul	+ 1.2	+ 0.9	+ 0.5	+ 0.4	Jul	– 0.8	+ 1.2	May	+ 3.0
Italy	+ 2.7	Jul	+ 2.2	+ 2.4	+ 1.9	+ 1.5	Jun	– 0.5	+ 1.7	Jun*	+ 2.3
Japan	– 0.4	Jun	– 0.7	– 0.4	– 0.4	– 0.7	Jul	– 2.1	+ 2.7	Jun	– 1.8
Netherlands	+ 2.2	Jun	+ 3.4	+ 2.3	+ 1.7	+ 2.5	Jun	– 2.2	+ 2.8	Jun	+ 3.4
Spain	+ 2.8	Jul	+ 3.4	+ 3.0	+ 2.5	+ 0.9	Jun	+ 0.2	+ 4.9	Q1	+ 4.0
Sweden	+ 1.8	Jul	+ 2.2	+ 2.2	+ 1.6	– 1.6	Jun	– 0.6	+ 2.1	May	+ 4.5
Switzerland	+ 0.3	Jul	nil	+ 0.7	+ 0.6	– 0.7	Jun	– 1.7	+ 1.8	2002	+ 2.5
United States	+ 2.1	Jun	+ 1.1	+ 2.1	+ 1.3	+ 2.9	Jun	– 2.3	+ 3.1	Jul	+ 2.9
Euro area	+ 1.9	Jul	+ 2.0	+ 1.8	+ 1.3	+ 1.4	Jun	– 0.9	+ 3.0	Q1	+ 3.3
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*										
Finland	+ 0.8	Jun	+ 1.1	na	na	– 1.0	Jun	– 2.3	+ 4.1	Q1	+ 3.2
Greece	+ 3.6	Jul	+ 3.3	na	na	+ 3.1	Jun	+ 0.3	na		na
Iceland	+ 2.0	Aug	+ 3.2	na	na	+ 3.3	Aug	+ 6.2	+ 5.6	Jun	+ 6.9
Ireland	+ 3.1	Jul	+ 4.3	na	na	–10.6	Jun	– 1.9	+ 7.1	Q1	+ 6.9
Luxembourg	+ 1.6	Jul	+ 2.0	na	na	+ 2.4	May	– 2.1	– 2.8	May	+ 0.8
New Zealand	+ 1.5	Q2	+ 2.8	na	na	– 1.3	Q1	+ 2.8	+ 2.3	Q2	+ 2.1
Norway	+ 1.5	Jul	+ 1.6	na	na	+ 6.3	Jul	– 9.4	+ 5.3	Q1	+ 4.6
Portugal	+ 3.3	Jun	+ 3.4	na	na	+ 0.8	Jun	+ 0.5	nil	Jun	+ 0.5

*New series.

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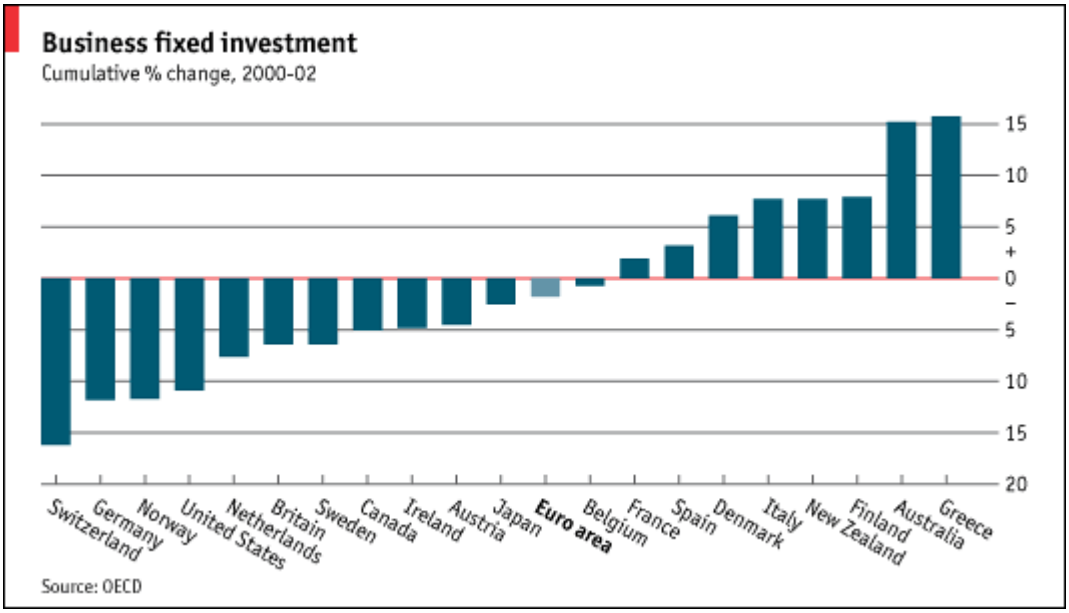
Business fixed investment

Aug 14th 2003
From The Economist print edition



Business fixed investment (private capital spending excluding outlays on dwellings) has been weak in many of the world's industrialised economies during 2001 and 2002. According to the OECD, the biggest declines since 2000 have been in Switzerland, Germany and Norway, closely followed by the United States. Australia and Greece, however, have defied the global economic downturn by building their stock of fixed capital.

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Money and interest rates

Aug 14th 2003
From The Economist print edition

	Money supply* % change on year ago			Interest rates % p.a. (Aug 13th 2003)					
				3-mth money market		2-year	10-year gov't bonds		corporate
	narrow	broad		latest	year ago	gov't bonds	latest	year ago	bonds
Australia	+ 8.7	+13.0	Jun	4.84	4.93	4.87	5.60	5.52	6.35
Britain	+ 6.7	+ 8.0	Jun	3.44	3.91	4.01	4.53	4.53	5.83
Canada	+ 8.0	+ 7.4	Jun	2.84	2.78	2.98	5.05	5.10	6.53
Denmark	+10.5	+10.1	Jun	2.30	3.55	2.80	4.32	4.66	5.52
Japan	+ 5.0	+ 1.8	July	0.01	0.02	0.07	0.94	1.28	0.99
Sweden	+ 3.3	+ 5.0	Jun	2.67	4.17	3.18	4.66	4.91	3.76
Switzerland	+24.5	+10.3	Jun	0.25	0.81	0.31	2.58	2.80	3.22
United States	+ 7.0	+ 7.1	Jun	1.03	1.69	1.82	4.49	4.04	6.12
Euro area†	+11.5	+ 8.3	Jun	2.14	3.33	2.46	4.13	4.38	4.16

*Narrow: M1 except Britain and Sweden M0, broad: M2 or M3 except Britain M4. † Germany for bonds. Benchmarks: US 30-year 5.46%, Japan No.252 0.93%. Central bank rates: US fed funds 1.00%, ECB refinancing 2.00%, BOJ overnight call 0.001%, BOE repo 3.5%. Sources: Commerzbank, Danske Bank, J.P. Morgan Chase, Royal Bank of Canada, Stockholmsbörsen, UBS, Global Insight, Westpac, Thomson Datastream. Rates cannot be construed as banks' offers.

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The Economist commodity price index

Aug 14th 2003
From The Economist print edition

1995=100

	Aug 5th	Aug 12th*	% change on one month	% change on one year
Dollar index				
All items	77.6	78.0	+ 2.5	+ 6.1
Food	75.9	77.6	+ 3.5	- 0.2
Industrials				
All	79.9	78.5	+ 1.2	+16.1
Nfa†	81.5	81.5	+ 2.5	+14.7
Metals	78.6	76.0	- 0.0	+17.3
Sterling index				
All items	76.2	76.8	+ 2.5	+ 1.5
Euro index				
All items	90.0	90.8	+ 2.0	- 8.1
Yen index				
All items	99.1	98.4	+ 3.5	+ 5.6
Gold				
$ per oz	349.50	359.40	+ 4.3	+14.1
West Texas Intermediate				
$ per barrel	32.24	31.89	+ 0.9	+14.1

* Provisional. † Non-food agriculturals.

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Stockmarkets

Aug 14th 2003
From The Economist print edition

Market indices

	Aug 13th	2003 high	2003 low	% change on one week	% change on record high	% change on Dec 31st 2002 in local currency	% change on Dec 31st 2002 in $ terms
Australia (All Ordinaries)	3,150.4	3,150.4	2,673.3	+ 1.0	- 8.4	+ 5.9	+23.6
Austria (ATX)	1,325.0	1,350.3	1,120.2	+ 0.8	-23.7	+15.2	+24.0
Belgium (Bel 20)	2,037.1	2,074.1	1,426.6	+ 1.4	-44.7	+ 0.6	+ 8.3
Britain (FTSE 100)	4,180.7	4,207.0	3,287.0	+ 2.7	-39.7	+ 6.1	+ 6.0
Canada (Toronto Composite)	7,372.3	7,372.3	6,228.6	+ 3.3	-35.3	+11.5	+27.2
Denmark (KBX)	195.1	195.1	145.0	+ 4.3	-35.3	+17.3	+26.3
France (SBF 250)	2,171.3	2,171.8	1,630.1	+ 2.2	-50.5	+ 5.7	+13.8
(CAC 40)	3,208.1	3,213.9	2,403.0	+ 2.6	-53.7	+ 4.7	+12.7
Germany (DAX)	3,398.9	3,487.9	2,203.0	+ 0.7	-57.9	+17.5	+26.5
Italy (BCI)	1,175.6	1,195.9	959.4	+ 2.3	-46.1	+ 7.7	+15.9
Japan (Nikkei 225)	9,752.8	9,991.0	7,607.9	+ 4.6	-74.9	+13.7	+13.1
(Topix)	951.8	979.4	770.6	+ 3.2	-67.0	+12.9	+12.3
Netherlands (AEX)	315.3	337.3	218.4	+ 2.2	-55.1	- 2.3	+ 5.2
Spain (Madrid SE)	736.2	742.6	576.8	+ 0.9	-35.8	+16.1	+25.0
Sweden (Affarsvarlden Gen)	168.8	168.8	127.8	+ 2.9	-57.8	+16.2	+24.0
Switzerland (Swiss Market)	5,030.4	5,079.1	3,675.4	+ 0.7	-40.2	+ 8.6	+ 9.8
United States (DJIA)	9,271.8	9,323.0	7,524.1	+ 2.3	-20.9	+11.2	+11.2
(S&P 500)	984.0	1,011.7	800.7	+ 1.8	-35.6	+11.8	+11.8
(NASDAQ Comp)	1,686.6	1,754.8	1,271.5	+ 2.1	-66.6	+26.3	+26.3
Europe (FTSE Eurotop 300)*	879.1	890.8	682.7	+ 2.3	-48.4	+ 2.6	+10.4
Euro area (FTSE Ebloc 100)*	754.1	759.2	565.7	+ 2.3	-51.4	+ 5.0	+13.0
World (MSCI)†	887.8	907.3	710.8	+ 2.0	-38.7	na	+12.1
World bond market (Citigroup)‡	548.8	583.9	518.6	- 0.3	- 6.0	na	+ 4.5

*In euro terms. †Morgan Stanley Capital International index includes individual markets listed above plus eight others, in dollar terms.
‡Citigroup World Government Bond Index, total return, in $ terms.

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Trade, exchange rates and budgets

Aug 14th 2003
From The Economist print edition

	Trade balance*, $bn latest 12 months		Current account $bn latest 12 mths		The Economist poll % of GDP, forecast 2003	2004	Exchange rate trade-weighted† 1990=100 Aug 13th	year ago	Currency units per $ Aug 13th	year ago	per £	per euro	per ¥100	Budget balance % of GDP 2003‡
Australia	− 10.8	Jun	− 20.8	Q1	− 5.1	− 4.6	83.0	71.4	1.52	1.87	2.45	1.72	1.28	0.2
Austria	+ 0.7	May	+ 2.1	May	+ 0.2	+ 0.1	103.1§	100.8	0.89	1.03	1.42	–	0.74	-1.3
Belgium	+ 17.8	May	+ 10.7	Mar	+ 4.6	+ 4.6	103.3§	100.0	0.89	1.03	1.42	–	0.74	nil
Britain	− 75.7	Jun	− 5.8	Q1	− 1.1	− 1.3	99.0	105.0	0.62	0.65	–	0.70	0.52	-1.9
Canada	+ 36.2	May	+ 13.9	Q1	+ 1.8	+ 1.6	84.6	75.9	1.38	1.58	2.23	1.56	1.16	1.1
Denmark	+ 9.8	Jun	+ 5.9	Jun	+ 2.6	+ 2.5	106.5	103.2	6.58	7.65	10.6	7.43	5.52	1.6
France	+ 6.8	May	+ 27.0	May	+ 1.4	+ 1.3	106.8§	102.9	0.89	1.03	1.42	–	0.74	-3.6
Germany	+129.4	Jun	+ 54.4	Jun	+ 2.1	+ 1.9	104.5§	99.8	0.89	1.03	1.42	–	0.74	-3.7
Italy	+ 3.6	May	− 13.5	May	− 0.5	− 0.4	76.1§	73.3	0.89	1.03	1.42	–	0.74	-2.4
Japan	+ 93.0	Jun	+112.6	Jun	+ 2.5	+ 2.7	128.2	138.8	119	120	192	135	–	-7.7
Netherlands	+ 30.1	Jun	+ 2.9	Q1	+ 2.2	+ 2.4	102.8§	99.0	0.89	1.03	1.42	–	0.74	-1.6
Spain	− 45.5	May	− 19.0	Apr	− 2.4	− 2.3	77.3§	75.0	0.89	1.03	1.42	–	0.74	-0.4
Sweden	+ 15.6	Jun	+ 11.5	Q1	+ 3.5	+ 3.4	80.1	76.6	8.17	9.60	13.1	9.23	6.85	0.7
Switzerland	+ 5.8	Jun	+ 32.8	Q1	+10.8	+10.6	111.8	114.6	1.37	1.50	2.20	1.55	1.15	na
United States	−525.4	May	−510.2	Q1	− 5.3	− 5.4	104.4	112.4	–	–	1.61	1.13	0.84	-4.6
Euro area	+ 84.4	May	+ 45.3	May	+ 0.6	+ 0.5	90.0	81.7	0.89	1.03	1.42	–	0.74	-2.5
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*													
Finland	+ 13.8	Jun	+ 10.3	Jun	na	na	82.2§	78.9	0.88	1.03	1.42	–	0.74	3.1
Greece	− 23.5	May	− 11.0	May	na	na	59.7§	58.0	0.88	1.03	1.42	–	0.74	-1.0
Iceland	nil	Jun	nil	Q1	na	na	98.1**	89.0	77.9	85.5	125	88.0	65.3	nil
Ireland	+ 36.5	May	− 2.1	Q1	na	na	95.2§	89.3	0.88	1.03	1.42	–	0.74	-0.8
Luxembourg	− 3.3	May	+ 1.8	Q1	na	na	103.3§	100.0	0.88	1.03	1.42	–	0.74	0.2
New Zealand	− 1.4	Jun	− 1.4	Q1	na	na	100.2	83.9	1.72	2.20	2.77	1.94	1.44	0.8
Norway	+ 27.5	Jun	+ 25.8	May	na	na	96.9	104.3	7.19	7.75	11.6	8.12	6.03	11.3
Portugal	− 12.6	May	− 8.5	May	na	na	92.9**	90.0	0.88	1.03	1.42	–	0.74	-3.2

*Merchandise. Australia, Britain, France, Canada, Japan and United States imports fob, exports fob. All others cif/fob. †Bank of England except §IMF, May average. ‡OECD forecast. **IMF, April average.

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Exchange-rate forecasts

Aug 14th 2003
From The Economist print edition

Exchange-rate forecasts

From J.P. Morgan Chase, currency units per $

	August 13th	3-month	12-month
Euro area*	1.13	1.21	1.24
Japan	119.0	116.0	110.0
Australia	1.52	1.45	1.49
Britain†	1.61	1.68	1.69
Canada	1.38	1.36	1.30
Denmark	6.57	6.20	6.00
Sweden	8.16	7.35	7.10
Switzerland	1.37	1.27	1.25
China	8.28	8.28	8.18
Singapore	1.75	1.74	1.72
South Korea	1,180	1,130	1,150
Brazil	3.02	3.20	3.30
Mexico	10.7	10.6	10.8
Poland	3.87	3.50	3.30
Russia	30.4	30.0	29.0
South Africa	7.41	7.90	8.50

*$ per †$ per £

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Overview

Aug 14th 2003
From The Economist print edition

China's industrial output rose by 16.5% in the year to July, thanks to increased production of cars, mobile telephones, computers and electronics. (China's economic statistics are, however, viewed with scepticism by many analysts.) A cheap yuan helped to keep exports booming. In the seven months to July, exports rose by 33.4% from a year earlier, to $228 billion.

Taiwan's exports grew by a lower-than-expected 4.5% in the 12 months to July as shipments to America, Hong Kong and Japan remained weak.

Industrial production in **Mexico** fell by 1.7% in the year to June.

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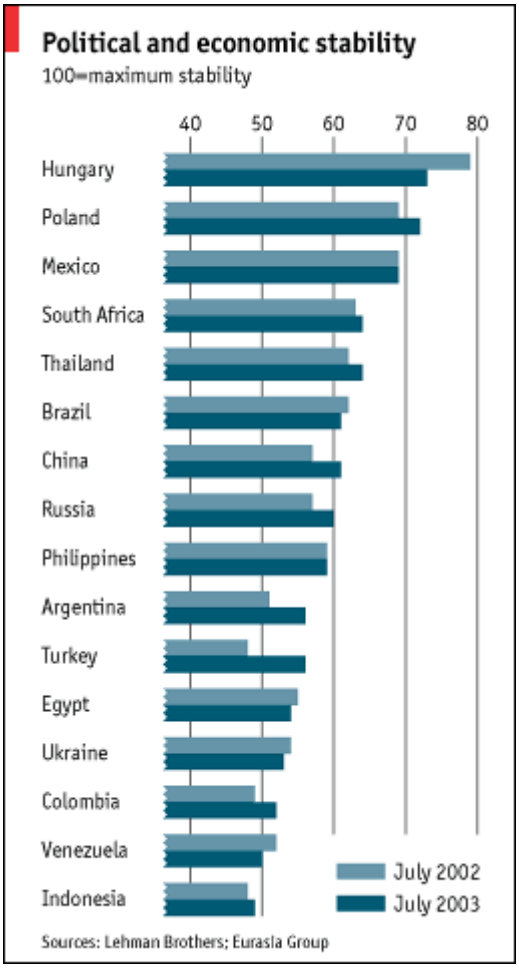
Political and economic stability

Aug 14th 2003
From The Economist print edition

Hungary remains the most stable emerging economy of those measured by Lehman Brothers and Eurasia Group, a firm that analyses political risk. According to their political-stability index, which seeks to measure a country's ability to withstand crises and to avoid generating them, Hungary's score is 73 of a possible 100. Following closely behind are Poland, with a score of 72, and Mexico at 69. Argentina, China and Turkey have all seen healthy increases in stability in the past year, according to the index. Indonesia, troubled by terrorism, and Venezuela, mired in political crisis, score lowest.



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Economy

Aug 14th 2003
From The Economist print edition

	% change on year ago						Latest 12 months, $bn				Foreign reserves* $bn, latest	
	GDP		Industrial production		Consumer prices		Trade balance		Current account			
China	+ 6.7	Q2	+16.5	Jul	+ 0.5	Jul	+20.8	Jul	+35.4	2002	345.0	May
Hong Kong	+ 4.5	Q1	– 8.8	Q1	– 3.1	Jun	– 7.1	Jun	+18.4	Q1	112.6	Jul
India	+ 4.9	Q1	+ 5.7	Jun	+ 4.4	Jun	–11.9	Jun	+ 4.7	Q1	81.2	Jul
Indonesia	+ 3.4	Q1	+18.4	Mar	+ 5.8	Jul	+25.5	Jun	+ 7.5	Q4	33.0	Jun
Malaysia	+ 4.0	Q1	+ 8.6	Jun	+ 1.0	Jul	+17.0	Jun	+ 8.5	Q1	36.0	Jun
Philippines	+ 4.5	Q1	+ 2.6	May	+ 3.3	Jul	– 0.8	May	+ 3.1	Apr	13.0	Jul
Singapore	– 4.2	Q2	– 7.3	Jun	– 0.3	Jun	+12.9	Jun	+23.8	Q2	87.0	Jul
South Korea	+ 3.7	Q1	+ 7.8	Jun	+ 3.2	Jul	+ 9.1	Jul	+ 3.7	Jun	131.6	Jun
Taiwan	+ 3.2	Q1	+ 2.1	Jun	– 1.0	Jul	+17.2	Jul	+25.9	Q1	182.2	Jul
Thailand	+ 6.7	Q1	+11.2	Jun	+ 1.8	Jul	+ 4.7	Jun	+ 8.7	Jun	36.7	Jul
Argentina	+ 5.1	Q1	+10.9	Jun	+ 7.3	Jul	+17.1	Jun	+10.1	Q1	13.5	Jul
Brazil	+ 2.0	Q1	– 2.1	Jun	+15.4	Jul	+21.8	Jul	+ 0.1	Jun	48.0	Jun
Chile	+ 3.5	Q1	+ 2.2	Jun	+ 3.1	Jul	+ 2.4	Jun	– 0.6	Q1	15.5	Jun
Colombia	+ 3.8	Q1	+ 3.3	May	+ 7.0	Jul	– 0.4	Apr	– 2.1	Q1	10.0	Jul
Mexico	+ 2.3	Q1	– 1.7	Jun	+ 4.1	Jul	– 6.5	Jun	–12.7	Q1	52.9	Jun
Peru	+ 1.8	May	+ 3.3	Jun	+ 2.0	Jul	+ 0.5	May	– 1.1	Q1	9.3	Jul
Venezuela	–29.0	Q1	–14.6	Apr	+31.9	Jul	+15.0	Q1	+ 9.5	Q1	11.9	May
Egypt	+ 3.1	2002†	+ 4.2	2002†	+ 3.9	May	– 7.1	Mar	+ 1.0	Q1	13.4	Jun
Israel	+ 1.2	Q1	– 5.1	May	– 0.3	Jun	– 6.3	Jul	– 0.5	Q1	24.4	Jul
South Africa	+ 2.5	Q1	– 2.2	Jun	+ 6.7	Jun	+ 3.2	Jun	– 0.2	Q1	6.5	Jun
Turkey	+ 8.1	Q1	+11.7	Jun	+27.4	July	–14.0	May	– 3.5	May	28.6	Jun
Czech Republic	+ 2.2	Q1	+ 6.2	Jun	– 0.1	Jul	– 2.4	Jun	– 4.4	Q1	25.2	Jul
Hungary	+ 2.7	Q1	+ 2.8	Jun	+ 4.7	Jul	– 3.3	Jun	– 3.8	Jun	12.2	Jul
Poland	+ 2.2	Q1	+ 7.8	Jun	+ 0.8	Jun	–10.1	Jun	– 5.2	Jun	30.9	Jun
Russia	+ 6.8	Q1	+ 7.0	Jun	+14.0	Jul	+54.2	Jun	+36.4	Q2	63.9	Jul
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Pakistan	+ 3.6	2002†	+15.8	Nov	+ 1.4	Jul	– 1.2	Jul	+ 2.6	2002†	9.8	May
Saudi Arabia	+ 0.7	2002§	na		– 1.0	May	+38.6	2002§	+11.7	2002	22.8	May

*Excluding gold, except Singapore; IMF definition. †Year ending June. §Economist Intelligence Unit estimate.
Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Economist Intelligence Unit; Reuters; J.P. Morgan Chase; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; FIEL; EFG-Hermes; Bank Leumi Le-Israel; Standard Bank Group; Akbank; Deutsche Bank.

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Financial markets

Aug 14th 2003
From The Economist print edition

	Currency units			Interest rates	Stockmarkets	% change on		
	per $		per £	short-term	Aug 13th		Dec 31st 2002	
	Aug 13th	year ago	Aug 13th	% p.a.		one week	in local currency	in $ terms
China	8.28	8.28	13.3	na	1,535.4	– 1.3	+ 8.2	+ 8.2
Hong Kong	7.80	7.80	12.5	1.17	10,301.5	+ 3.1	+ 10.5	+ 10.5
India	45.9	48.6	73.8	4.94	3,926.1	+ 4.9	+ 16.2	+ 21.4
Indonesia	8,545	8,775	13,745	9.41	511.2	+ 3.4	+ 20.3	+ 26.0
Malaysia	3.80	3.80	6.11	3.10	724.2	+ 0.7	+ 12.1	+ 12.1
Philippines	54.8	51.7	88.2	7.75	1,262.5	+ 4.8	+ 24.0	+ 20.8
Singapore	1.75	1.74	2.82	0.81	1,591.5	+ 5.4	+ 18.7	+ 17.3
South Korea	1,180	1,181	1,898	3.90	713.1	+ 0.7	+ 13.6	+ 14.2
Taiwan	34.3	33.5	55.2	0.90	5,442.3	+ 4.1	+ 22.2	+ 23.9
Thailand	41.8	41.9	67.2	1.27	525.2	+ 7.2	+ 47.3	+ 52.1
Argentina	2.88	3.63	4.64	8.25	718.8	– 2.6	+ 36.9	+ 59.8
Brazil	3.03	3.20	4.87	24.33	13,682.3	+ 6.2	+ 21.4	+ 42.0
Chile	705	703	1,134	2.88	6,610.5	+ 3.9	+ 31.7	+ 34.6
Colombia	2,873	2,629	4,621	7.87	2,117.3	– 0.4	+ 31.6	+ 31.4
Mexico	10.74	9.97	17.3	4.30	7,368.9	+ 1.9	+ 20.3	+ 17.1
Peru	3.49	3.57	5.61	3.41	1,878.5	+ 0.3	+ 35.0	+ 36.1
Venezuela	1,598	1,376	2,571	16.50	14,373.6	+ 2.9	+ 79.3	+ 55.6
Egypt	6.16	4.62	9.90	9.58	8,456.9	+ 3.6	+ 57.4	+ 18.4
Israel	4.44	4.69	7.14	4.58	411.8	– 0.6	+ 23.9	+ 32.6
South Africa	7.4	10.5	12.0	10.50	9,072.6	+ 3.0	– 2.2	+ 12.9
Turkey	1,407,500	1,635,000	2,264,105	31.00	11,916.1	+ 5.3	+ 14.9	+ 35.5
Czech Republic	28.4	31.9	45.7	2.05	575.1	+ 1.7	+ 24.8	+ 32.1
Hungary	230	249	369	9.53	8,226.2	+ 0.1	+ 5.5	+ 3.3
Poland	3.88	4.17	6.23	5.19	18,958.8	+ 6.0	+ 32.0	+ 30.6
Russia	30.4	31.6	48.8	16.00	495.0‡	+ 6.5	+ 31.0	+ 37.9
EMF (MSCI)*	1.00	1.00	1.61	na	357.5	+ 3.0	na	+ 22.4
EMBI+†	1.00	1.00	1.61	na	263.1	+ 1.6	na	+ 15.0

*Emerging Mkts Free. †J.P. Morgan Chase's Emerging Mkts Bond Index Plus. ‡ In $ terms.
Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Economist Intelligence Unit; Reuters; J.P. Morgan Chase; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; FIEL; EFG-Hermes; Bank Leumi Le-Israel; Standard Bank Group; Akbank; Deutsche Bank.

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